States of Fragility 2015

MEETING POST-2015 AMBITIONS

REVISED EDITION

The Development Assistance Committee: Enabling effective development

OECD

States of Fragility 2015

MEETING POST-2015 AMBITIONS

BETTER POLICIES FOR BETTER LIVES

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Foreword

The OECD's Development Co-operation Directorate (DCD) has produced Fragile States *reports since 2005. These reports explore trends and financial resource flows in fragile and conflict-affected states and economies. They respond to increasing concerns about the implications of fragility for international stability and development progress. Also, they recognise aid as being only one component of international support to fragile environments, and put it into context. The OECD remains one of only a handful of sources of aggregate data and analysis for fragile states and economies as a group. In line with the new, broader concept of fragility presented in this 2015 report, the OECD's annual publication will now be referred to as* States of Fragility.

The purpose of this series is to provide compelling evidence that can inform donor policies and underpin international debates. By doing so, the reports seek to ensure that issues driving fragility remain high on the international development agenda. Concretely, the reports aim to enable policy makers in the international community to: 1) monitor levels and composition of resource flows to fragile states (official development assistance [ODA] and non-ODA); 2) understand qualitative trends in the delivery of aid; 3) gain an outlook on key issues and countries of concern over the coming years. The publication also seeks to shed light on a different key aspect of fragility every year. In 2014, the report included a special focus on domestic revenue mobilisation, a key aspect of one of the five Peacebuilding and Statebuilding Goals.

With regard to the data used in the current volume, this report draws on 2012 official development assistance data, the latest available data at the time of writing. All amounts referring to 2012 are denoted in current 2012 USD, unless specified otherwise. For time series, constant 2012 USD are used. Figures reflect OECD statistics unless indicated otherwise. Further, data on concessional flows reflect the different donor interpretations and OECD-DAC adjustments, as explained at: www.oecd.org/dac/stats/concessionality-note.htm.

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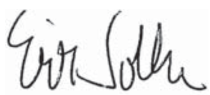
Editorial

This year has the potential to be a turning point in the history of poverty reduction. As the end of the Millennium Development Goals (MDG) draws closer, we are witnessing progress given that extreme poverty has been halved worldwide, although the majority of fragile states and conflict-affected countries have not met the MDG targets. It is worthy to note that the MDG framework did not address the challenges faced by fragile and conflict-affected countries nor the context within which the MDGs were being implemented in fragile situations. It is evident that 15 years on, fragile and conflict-affected countries have been left behind. In the run-up to the Special Summit on Sustainable Development in September 2015, the UN Secretary-General's synthesis report puts forward "justice – promoting safe and peaceful societies, and strong institutions", as one of the "six essential elements" for delivering the Sustainable Development Goals (SDGs) for post-2015. The proposed goal on justice and peace will be an important step in tackling the challenges faced in fragile environments.

For this reason, the *States of Fragility 2015* is highly relevant as it underscores just how important it is to recognise the nexus between fragility and poverty. The universal character of the post-2015 development framework calls for a broader understanding of fragility, risk and vulnerability. The nature of fragility has evolved over the past decade and so must our thinking. Conflict remains unparalleled and it can reverse national development gains by more than 20 years. Recent assessments of fragility have shown that the key drivers of conflict in many of the fragile and conflict-affected countries often revolve around injustice, inequality, ethnic tensions and, in extreme cases, religious radicalisation of various kinds. Climate change, environmental disasters and pandemic diseases such as Ebola have also exposed the vulnerabilities of many countries, from small island states in the Pacific to post-conflict West African states. Weak institutions could also be a source of collapse in seemingly strong states.

This report presents a truly innovative attempt to capture the diversity of risks and vulnerabilities that generate fragility in its many forms. It does so by looking at five main dimensions and identifying the countries and economies the most vulnerable to them. The work presents some astonishing facts, and opens up new perspectives and proposes a new course of action. A huge political push is now needed to radically improve the ways in which the New Deal principles are implemented, and to deliver results on the ground. Providers of development co-operation must reflect on the conclusions of this report, and channel their support to build peace and effective institutions in line with the national priorities of partner countries.

Much research is already underway in the run-up to the UN Special Summit on the Sustainable Development Goals framework. This report stands out because of the practical tool it offers for understanding and monitoring the multidimensional nature of fragility across the globe. Given the universal aspirations of the emerging SDG framework, the model proposed in this report could be highly relevant to the work underway to develop an SDG framework that is all encompassing. For these reasons, we hope that it will be developed further to support the UN-led sustainable development agenda and the goal of promoting safe and peaceful societies and strong institutions.



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Acronyms and abbreviations

AfDB	African Development Bank
BRICS	Brazil, Russian Federation, India, China, South Africa
CPA	Country programmable aid
CPIA	Country Performance and Institutional Assessment (World Bank)
CRS	Creditor Reporting System (OECD)
DAC	Development Assistance Committee (OECD)
DDR	Disarmament, demobilisation and reintegration
DESA	Department of Economic and Social Affairs (United Nations)
DPA	Department of Political Affairs (United Nations)
DPKO	Department for Peacekeeping Operations (United Nations)
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
ICT	Information and communication technology
IDA	International Development Association (World Bank)
IFC	International Finance Corporation (World Bank Group)
IMF	International Monetary Fund
INCAF	International Network for Conflict and Fragility (OECD DAC)
LDC	Least developed country
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund (World Bank)
MINURSO	United Nations Mission for the Referendum in Western Sahara
MINUSCA	United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic
MPTF	Multi-Partner Trust Fund (United Nations)
NGO	Non-governmental organisation
ODA	Official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OOF	Other official flows
OWG	Open Working Group (United Nations)
PSG	Peacebuilding and Statebuilding Goal
SDG	Sustainable Development Goal
SDRF	Somalia Development and Reconstruction Facility
SFF	Special Financing Facility (Somalia)
SIPRI	Stockholm International Peace Institute
SSR	Security system reform
TOSSD	Total official support for sustainable development
UN	United Nations

UNAMID	United Nations African Union Mission in Darfur
UNDP	United Nations Development Programme
UNFICYP	United Nations Peacekeeping Force in Cyprus
UNIFIL	United Nations Interim Force in Lebanon
UNMISS	United Nations Mission in South Sudan
UNOCA	United Nations Regional Office for Central Africa
UNOWA	United Nations Office for West Africa
USD	United States dollar
WHO	World Health Organization

Executive summary

Addressing fragility will be central to realising the post-2015 Sustainable Development Goals

States of Fragility 2015 is published at an important time for international development co-operation. In 2015, the world's governments will agree on a successor framework to the Millennium Development Goals (MDGs). This framework will be more ambitious than ever, requiring in turn more urgent efforts to reduce the persistent poverty in fragile situations and strengthen the institutions that can deliver economic and social development.

Fragile states and economies lag behind in achieving the Millennium Development Goals

Many fragile states and economies have made important strides toward reaching the MDGs, but as a group they have lagged behind other developing countries. Nearly two-thirds of those now considered fragile are expected to fail to meet the goal of halving poverty by 2015. Just one-fifth will halve infant mortality by 2015, and just over one-quarter will halve the number of people who do not have access to clean water. These trends point to a growing concentration of absolute poverty in fragile situations. Today, the 50 countries and economies on the 2015 fragile states list (which is a sample group for analysis) are home to 43% of people living on less than USD 1.25/day; by 2030, the concentration could be 62%.

Fragility should be assessed differently in the post-2015 era

This report offers a new tool for assessing fragility that is more comprehensive than the traditional single categorisation of "fragile states", and recognises the diversity of risks and vulnerabilities that lead to fragility. It identifies countries the most vulnerable in five dimensions of risk and vulnerability linked to fragility, and asks how likely they are to achieve the UN Open Working Group's post-2015 goals and targets in those five dimensions: 1) violence (peaceful societies); 2) access to justice for all; 3) effective, accountable and inclusive institutions; 4) economic foundations; 5) capacity to adapt to social, economic and environmental shocks and disasters.

This approach to assessing fragility can help to identify national and international priorities by shedding light on which countries are the most vulnerable to risks, and can inform international financing allocations. This report proposes a model that can be modified to reflect the final negotiated development framework that will emerge in late 2015.

Left unaddressed, fragility will impede the post-2015 development goals

The goal of eradicating poverty will remain beyond the reach of many countries unless concentrated efforts begin now to address fragility. If institution building and conflict reduction continue at their existing pace, by 2030 nearly half a billion people could remain below the USD 1.25/day poverty line. Under a moderately optimistic scenario, in which countries' institutions develop and conflict declines faster, that figure could reduce to 420 million people. A best-case scenario of rapid institution building and a widespread decline in conflict would reduce poverty to 350 million people.

Aid fills a significant finance gap in many fragile states, but there are huge imbalances in its distribution

While per capita official development assistance (ODA) to fragile situations has almost doubled since 2000, aid is distributed unevenly. Afghanistan and Iraq received significant flows in the MDG era – 22% of all ODA to fragile states and economies. At the same time, 10 of the world's 11 aid orphans have been part of this pool of countries.

Remittances, the largest aggregate flow to fragile states and economies, benefit a small number of middle-income countries with big diaspora populations. Only 6% of foreign direct investment (FDI) to developing countries in 2012 went to fragile situations, and it was concentrated in just ten resource-rich countries.

Development finance can be better monitored and targeted at reducing fragility

Aid budgets are still adapting to the Peacebuilding and Statebuilding Goals (PSGs) endorsed in 2011 by conflict-affected and fragile countries, development partners and civil society. While there is no agreed framework for tracking aid to support the PSGs, a working model found that it remained low in 2012. Just 4% of ODA to fragile states and economies was allocated to the PSGs for legitimate politics, 1.4% for security and 3% for justice.

Some evidence suggests that aid is better aligned to needs for institution building: least developed countries (LDCs) with lower levels of institutional capacity receive higher per capita ODA financing. A significant burden of violence is concentrated in lower middle-income countries, however, and these contexts receive relatively limited per capita aid flows. Vulnerability to shocks and disasters is greatest among a cluster of LDCs and lower middle-income countries, but ODA to these states is not commensurate with their greater exposure.

Scaling up ODA to the poorest and most fragile countries could help to make greater inroads into reducing fragility in the post-2015 era, as can non-concessional finance to middle-income countries and investments in global public goods.

New norms are needed for tracking spending on peace and security

No international norms exist for tracking peace and security spending. Only UN peacekeeping (almost USD 8.5 billion per year) and ODA expenditures on security are tracked. A small portion of ODA, just 1.4% in 2012, is spent on security sector reform in fragile states. Agreeing on targets and norms for monitoring spending on global peace, security and conflict prevention would sharpen the focus on the quality of international efforts to prevent and reduce crises.

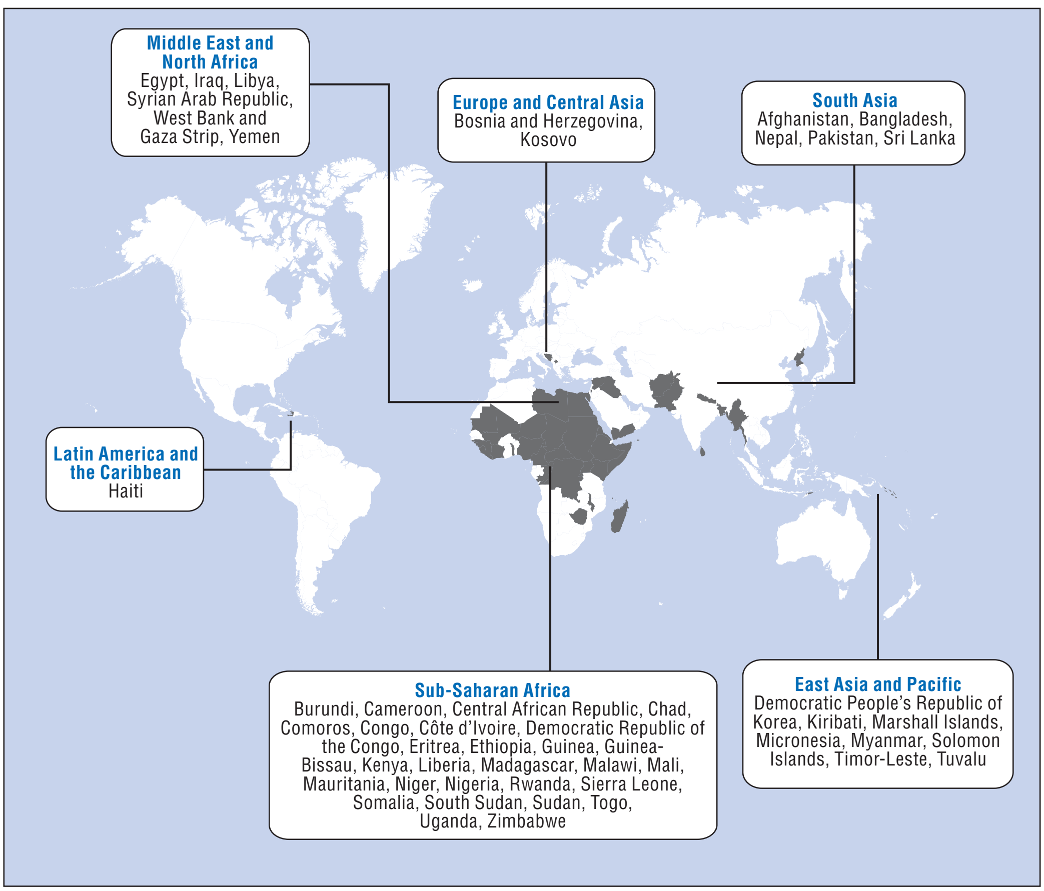
National ownership and international commitment are needed to reduce fragility

Fragile states have untapped opportunities to pursue development. Capitalising on them will require national ownership, international commitment and innovation. Multi-sectoral efforts to reduce violence, build trust in government and improve the quality of public services will be key to achieving a post-2015 goal for peaceful and inclusive societies.

Aid will need to be much smarter in the post-2015 era

The post-2015 debate offers a historic opportunity to make the international approach to fragility and financing "fit-for-purpose". Far greater international political will is needed to support nationally owned and led plans, build national institutions at a faster rate, and help countries to generate domestic revenues and attract private finance. To this end, donors must be more flexible and risk tolerant to on-budget aid modalities that build national institutions. The international community can also develop more demand-driven aid innovations that support domestic revenue generation, enable South-South and triangular co-operation, and make greater use of public finance instruments that help to attract FDI.

Figure 0.1. **The list of fragile states and economies used in this report**



Notes: For this report, the list of fragile states and economies assembled by the OECD results from a compilation of two lists: the countries on the World Bank-African Development Bank-Asian Development Bank Harmonized List of Fragile Situations, and the countries on the Fragile States Index developed by The Fund for Peace which are in the "alert" and "warning" categories (scores above 90).

Sources: 2014 Harmonized List of Fragile Situations put together by the World Bank, Asian Development Bank and African Development Bank, available at: *http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/HarmonizedlistoffragilestatesFY14.pdf*; The Fund for Peace (2014), "Fragile States Index 2014", The Fund for Peace, Washington, DC, available at: *http://ffp.statesindex.org*.

States of Fragility 2015
Meeting Post-2015 Ambitions

Chapter 1

Fragility in the post-2015 framework

This report is published at an important time for international development co-operation. The post-2015 development framework is likely to be much more ambitious than the Millennium Development Goals (MDGs). This introductory chapter outlines the progress of fragile states and economies in meeting the MDGs and the challenges that fragility poses to meeting global development ambitions in the post-2015 era. It summarises the development finances available for addressing fragility, and the steps that can be taken to better allocate and monitor finances for reducing fragility and achieving global development aspirations in the future.

International fragility policy is evolving

In 2015, the world's governments will agree on a successor framework to the Millennium Development Goals (MDGs). This framework will be more ambitious than ever. It will be universal and will encompass a great many aspects of economic, social and environmental sustainable development.

The *States of Fragility 2015* report looks ahead to the challenges that fragility will pose to delivering these goals by 2030. It is structured around eight questions that are introduced in this first chapter and then examined in more detail in subsequent chapters. Chapter 2 sets out the big picture: the challenges fragile countries face in achieving development goals and the obstacles to development posed by fragility across all countries in the post-2015 era. Chapter 3 takes stock of international financing for fragile situations. Chapter 4 outlines the opportunities and priorities for moving from fragility to resilience post-2015. Annex A describes the methodology underlying the three approaches to capturing the complexity of fragility that are presented in this report. Annex B provides additional statistical data related to some of the issues explored in the main body of this report.

The major findings of this report are relevant no matter how the post-2015 goals and targets are finally framed. Fragility can impede development in all countries. Building more resilient states that have the capacity and legitimacy to govern effectively and investing in global public goods will be essential for meeting global aspirations in the post-2015 era.

Question 1: How have fragile states fared in meeting the Millennium Development Goals?

Fifty countries and economies are on the 2015 fragile states and economies list, the sample group for analysis in this report. Almost half of them (23) have featured on all lists since 2007. Today, these countries are home to 43% of people living on less than USD 1.25 a day; by 2030, poverty is likely to be even more concentrated in fragile countries.

The MDGs were ambitious targets for all developing countries, but have been most challenging for fragile states. While many of these countries have made important strides in improving human development, as a group they have lagged behind other developing countries' MDG performance.

According to World Bank data, nearly two-thirds of countries and economies in this group are expected to fail to halve poverty by 2015. By 2015, one-fifth of them will reduce child mortality by two-thirds and just over a quarter of them will halve the number of people who do not have access to clean water. While some fragile states have made major improvements in child survival and access to basic services, trends in global progress towards the MDGs still point to a growing concentration of poverty and weak human development in countries affected by fragility. Chapter 2 provides a more detailed evaluation of the progress towards the MDGs.

Question 2: How should fragility be assessed post-2015?

The MDGs did not include measures to reduce fragility or build state capacity and social and economic resilience. The lack of focus on peacebuilding and statebuilding in the MDG era appears to have compounded the slower rates of relative progress in development outcomes in fragile states.

Progress has been slower in fragile states due, in part, to the lack of focus on fragility in the MDGs.

While it is now widely recognised that the quality of institutions plays a central role in shaping development progress, there have been no formalised goals to support governance systems, and no targets to guide and monitor progress. The United Nations Open Working Group (OWG) on Sustainable Development Goals (SDG) responded to this omission. It acknowledged the interdependence of peace, institution building and development by proposing as a goal the promotion of "peaceful and inclusive societies for sustainable development", as well as goals and targets for more inclusive and sustainable social, economic and environmental development.

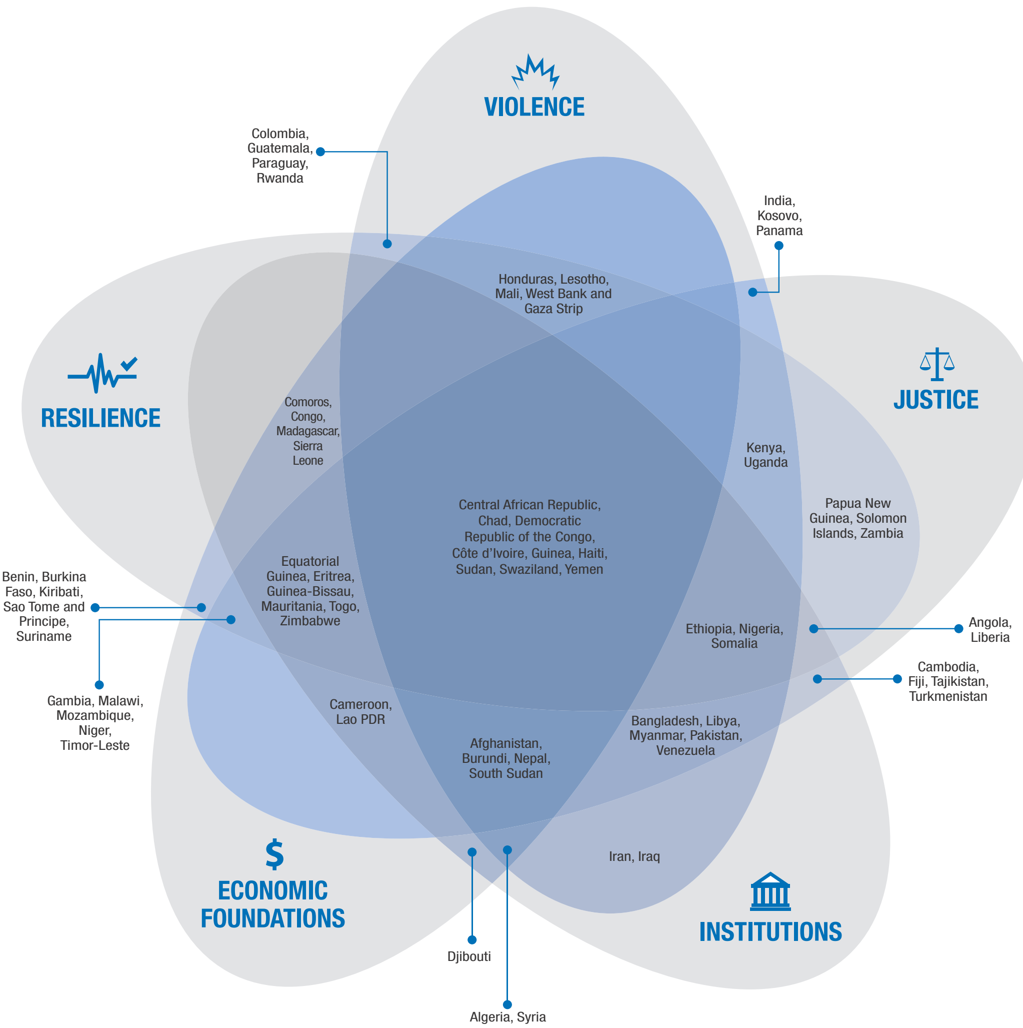
A more universal approach for assessing fragility will be needed in the post-2015 period, one that moves beyond a single categorisation of fragile states toward measures that capture diverse aspects of risk and vulnerability. This report proposes a working model for analysing all countries' risks across five clusters of fragility indicators: 1) violence; 2) access to justice for all; 3) effective, accountable and inclusive institutions; 4) economic inclusion and stability; 5) capacities to prevent and adapt to social, economic and environmental shocks and disasters. This model is put forward to stimulate fresh thinking and new ideas about these dynamic states of fragility and how to better track needs, aid flows and progress in achieving the SDGs in fragile situations. The approach to assessing fragility proposed here provides a basis for further development once the post-2015 goals, targets and indicators have been finalised.

The five proposed dimensions of fragility reveal distinct patterns of vulnerability. Countries vulnerable across multiple dimensions are most likely to have been identified on the fragile states list, but many lower middle-income countries are vulnerable to the risks of violence, economic shocks and natural disasters. Many of these countries are in Latin America and the Caribbean. Twelve countries identified as vulnerable in the economic inclusion and stability cluster have never been on a fragile states list.

A universal approach to assessing fragility has multiple benefits. It can help to identify priorities by highlighting countries that are vulnerable to specific risks and reversals of development gains; it can inform international priorities for jointly reducing fragility; and it can continue to focus efforts on making progress in the poorest and most fragile situations. A clustering approach also addresses some of the drawbacks of a single fragile states list. For example, countries themselves do not always find it helpful to be on the list. A single index can also miss important risks that interact with weak institutions and fragility such as climate change, pandemic threats and transnational organised crime.

Figure 1.1 is a Venn diagram illustrating the five-cluster working model presented in this report. Each of these five clusters – violence, justice, institutions, economic foundations, and capacity to adjust to shocks and disasters (resilience) – is represented as

Figure 1.1. **Venn diagram representing fragility clusters across states and economies**



VIOLENCE
Reduce all forms of violence and violent deaths everywhere

RESILIENCE
Reduce exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters; build adaptative capacity

JUSTICE
Promote the rule of law at the national and international levels, and ensure equal access to justice for all

ECONOMIC FOUNDATIONS
Reduce youth unemployment; promote economic, social and political inclusion

INSTITUTIONS
Develop effective, accountable and transparent institutions at all levels; reduce illicit financial flows and combat organised crime

Note: The 9 countries at the centre of this Venn diagram rank among the 50 most vulnerable countries in all 5 fragility clusters simultaneously. Moving out from the centre, those listed in the overlapping areas are among the 50 most affected in four, three and two clusters. The five proposed dimensions are taken from the emerging SDG framework.

Sources: Violence cluster (Uppsala University, 2014; WHO, 2014; World Bank, 2014a), justice cluster (UNICEF, 2014; World Bank, 2014a), institutions cluster (World Bank, 2014a), economic foundations cluster (World Bank, 2013; Barro and Lee, 2010; IMF, 2014), resilience cluster (IFs, 2014; US National Intelligence Council, 2008; UNU-EHS, 2014). See Figure 2.3 (Q.2) in Chapter 2 for details on the five dimensions of fragility explored in this report and Annex A for the methodology.

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an oval. In the original analysis, this oval included the 50 countries and economies that showed the highest vulnerability and risk associated to the cluster in question. Here, we focus on those countries that rank among those 50 in more than one aspect. The 9 countries at the centre of the diagram rank among the 50 most vulnerable countries in all 5 clusters simultaneously. Moving out from the centre, those listed in the overlapping areas are among the most affected in four, three and two clusters. The methodology for the clustering is presented in Question 2 and Annex A.

Question 3: What obstacles does fragility pose to delivering the post-2015 agenda?

The vast majority of the targets proposed by the UN Open Working Group are more demanding than their MDG equivalent, and especially challenging for fragile states and economies where poverty is likely to remain concentrated.

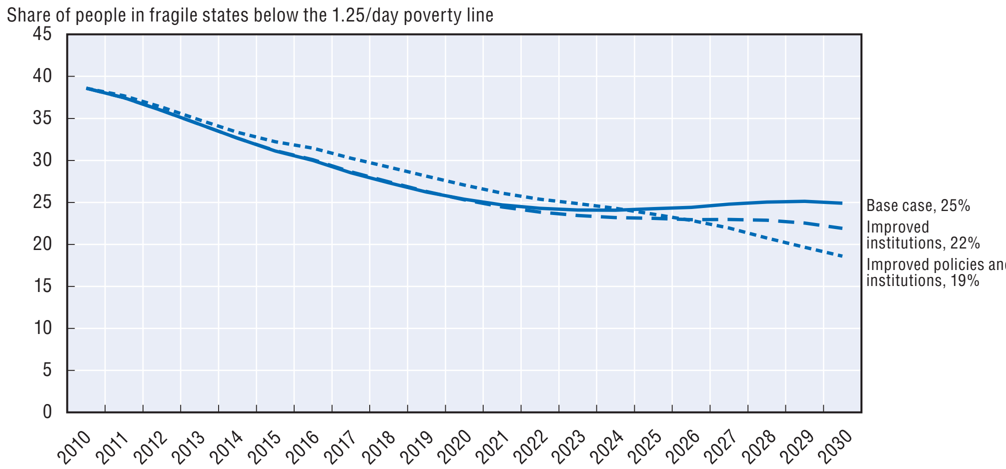
Fragility in all its forms will pose a formidable obstacle to eradicating extreme poverty for all people everywhere by 2030. Global success in poverty reduction over the next 15 years will heavily depend on success in building resilient institutions and societies and on reducing conflict. Question 3 of this report presents a set of scenarios that examine the scale and distribution of global poverty based on varying assumptions about the pace of progress in addressing fragility. These scenarios are not predictions. Rather, they are estimates of different global trajectories that serve to illustrate the change that is necessary to strengthen peaceful and inclusive societies by 2030 (Figure 1.2). The scenarios suggest that:

- **Fragility will have a significant impact on the scale of global poverty.** Under the "current trend" scenario, 25% of people in fragile states (nearly 500 million) will remain at or below the USD 1.25/day poverty line in 2030. Under the more optimistic "improved institutions" scenario, that share falls to 22% (420 million), while the "best-case" scenario sees a fall to 19% (350 million).
- **Reducing poverty will require addressing fragility.** The countries and economies on the 2015 fragile states list are home to 43% of the world's population living in absolute poverty. By 2030, poverty could become increasingly concentrated in fragile states: even under the best-case scenario, 62% of the global poor will be located in fragile states.
- **Unprecedented rates of progress will be needed to end poverty.** Even in the best-case scenario of improved institutions and development, which assumes major improvements to institutional capacity and reductions in violent conflict, fragile states will have large pockets of endemic poverty.

Efforts must begin now if the Sustainable Development Goals are to be met by 2030. Progress in building institutions and reducing conflict must accelerate in the early stages of the post-2015 period to preserve any realistic hope of meeting new goals and targets on income and poverty as outlined in the sustainable development agenda.

Figure 1.2. **Reducing poverty will depend on success in building resilient institutions**

Fragility and poverty projections (poverty rate at USD 1.25/day)



Note: For explanations on the three scenarios, see Box 2.5 (Q.3).
Source: Authors' calculations using the International Futures model.

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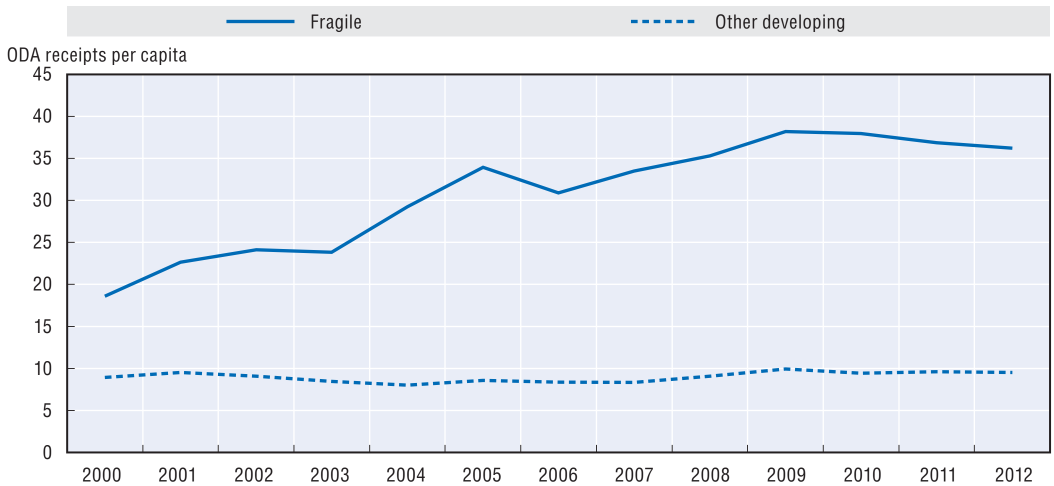
Question 4: What sources of development finance are available to fragile countries?

There are significant data deficits on flows of non-official development assistance and domestic sources of finance. These data gaps make it difficult to accurately track the financial resources available to meet post-2015 ambitions. Foreign direct investment (FDI) data, for instance, are based on global statistics from the World Bank and cannot be disaggregated by sector. Data on official development assistance (ODA) and other official flows (OOF) are based on data from the OECD-DAC membership and do not reflect all amounts extended by non-DAC providers of development co-operation. Data on domestic revenues are currently available or reported for only 15 of the 50 countries and economies on the fragile states list. Better quality data are also needed for other flows, such as philanthropy and other private flows.

ODA plays a crucial role in filling finance gaps for poverty eradication and other development priorities in countries and economies with low domestic revenues and will continue to do so. Sixteen of the top 20 most aid-dependent countries have been on the fragile states list since 2007, when it was first compiled. Since 2000, per capita ODA to fragile countries and economies has almost doubled, and the majority of all ODA has been allocated to countries that are on the 2015 fragile states list. Since 2007, 53% of total ODA has been allocated to countries that are currently on the list. This trend is set to continue. Country programmable aid (CPA) to fragile states peaked in 2013, and is projected to stabilise at higher levels than CPA to non-fragile developing countries into 2017. This broadly reflects the international community's intent to allocate aid to the poorest and most fragile countries. Non-traditional providers of development co-operation are also increasing development co-operation and investment in fragile situations. The United Arab Emirates, Turkey and the People's Republic of China are estimated to be among the largest non-DAC providers in absolute terms, although China does not report its data to the OECD. Moreover, Turkey and the United Arab Emirates are among the most generous non-DAC providers to fragile situations in terms of percentage of their gross national income (GNI).

Figure 1.3. **Official development assistance per capita, 2000-12**

ODA excluding debt relief, constant 2012 USD



Sources: OECD (2014), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; World Bank (2014b), "Population total", *World Development Indicators* (database), *http://data.worldbank.org/indicator/SP.POP.TOTL*.

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However, the positive aggregate trends in supporting fragile states mask imbalances in the distribution of ODA across countries that can have major implications for human well-being. No donor agency adjusts ODA allocations to take into account other agencies' allocation decisions, and some aid allocation decisions are geopolitically driven. This causes under-investment in some countries and the persistence of aid orphans. Ten of the world's 11 aid orphans have been at one time or another on the fragile states list; these include Guinea and Sierra Leone, which have been badly affected by the 2014 Ebola outbreak. Meanwhile, 22% of all ODA allocated to countries on the fragile states list between 2003 and 2012 went to Afghanistan and Iraq, largely driven by geopolitical considerations.

Other sources of development finance are negligible in many fragile states. Domestic revenues are growing, but from a low base. Remittances benefit a small number of countries with large diaspora populations, and many fragile states that do not have natural resources find it hard to attract FDI. Only 6% of FDI to developing countries goes to fragile states. OOF, which comprise non-concessional loans and other flows that are not primarily directed at development aims, are also heavily concentrated in a smaller number of countries.

Question 5: How is aid allocated in fragile states and to reducing fragility?

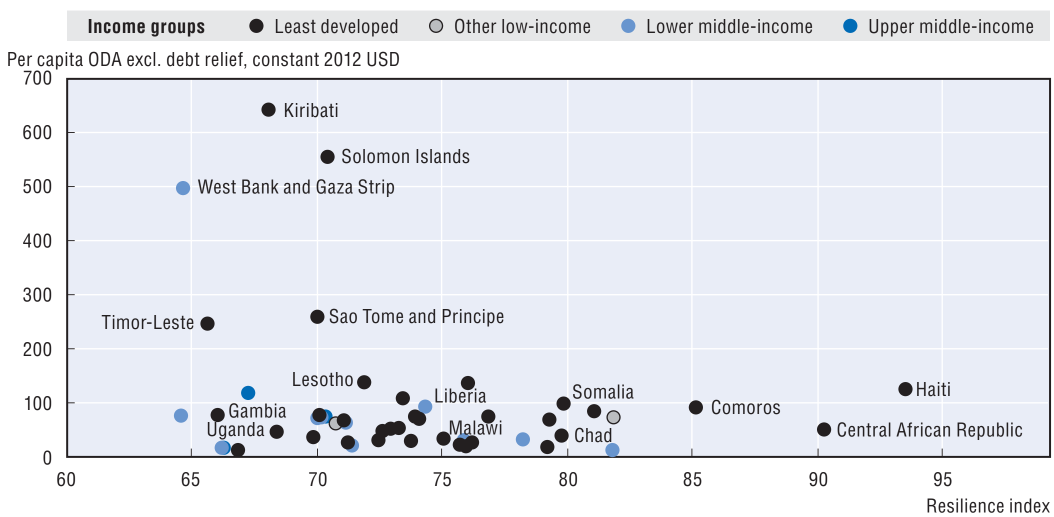
The majority of ODA to fragile states has been dedicated to sectors linked to the MDGs, and is therefore reflected in the Creditor Reporting System (CRS) as related to social services, economic infrastructure and services, health, population and education.

Aid budgets are still adapting to the five Peacebuilding and Statebuilding Goals (PSGs) endorsed in 2011 by the g7+ group of conflict-affected countries and OECD member countries. While there is no agreed framework for tracking aid to the PSGs, a working model for tracking assistance found that by 2012, ODA support for the PSGs remained low. Just 4% of ODA to countries on the fragile states list was allocated to the PSGs for legitimate politics, 2% for security and 3% for justice. Country-level experience also suggests donors have not fully aligned aid with national peacebuilding and statebuilding frameworks.

Similarly, viewing ODA allocations through the lens of the five fragility clusters shows that aid is not always aligned to risks and vulnerabilities that will continue to contribute to fragility in the post-2015 era. There is some evidence that aid is aligned to needs for institution building: countries with lower levels of institutional capacity receive higher per capita ODA financing. However, a significant burden of violence is concentrated in lower middle-income countries and these contexts receive relatively limited per capita aid flows. In addition, vulnerability to shocks and disasters is greatest among a cluster of least developed countries (LDCs) and lower middle-income countries, but these states do not receive ODA commensurate with managing their risk exposure. Figure 1.4 highlights the financing gaps for the 50 countries and economies in this group.

Figure 1.4. **Countries exposed to the risks of disasters and shocks receive lower levels of ODA per capita**

Per capita ODA (excluding debt relief) to the 50 most vulnerable countries to natural disasters and economic shocks by income group, 2012



Sources: Based on: World Bank (2014), "Population total", *World Development Indicators* (database), *http://data.worldbank.org/indicator/SP.POP.TOTL*; OECD (2014), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; and author's calculations for the "capacity to adapt to shocks and disasters" cluster using the OECD 2015 Five Dimensions of Fragility (Figure 2.3 [Q.2]).

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Addressing fragility will also require investment in global public goods such as peacekeeping and conflict prevention, measures to advance low-carbon economic growth and reduce carbon emissions, and systems to detect and respond to disease outbreaks with pandemic potential. However, there are no agreed estimates of financing needed for these public goods and no agreed norms for monitoring spending.

In the post-2015 era, monitoring and targeting of finance aimed at reducing fragility can be improved by:

- Implementing a global system of statistics for all available sources of development finance – not just from traditional donors, but also non-traditional providers of development co-operation and private actors.
- Drawing on tools such as the five dimensions of fragility to identify vulnerabilities, needs and resource trends.

- Introducing updated aid sector codes in the OECD-DAC's Creditor Reporting System for accurately tracking support for the post-2015 goals and targets and the PSGs.
- Agreeing on financing needs and norms for tracking expenditures on global public goods.

Question 6: Is security spending aligned and commensurate with the security challenges, risks and vulnerabilities that contribute to fragility?

Peace and security investments can help address fragility. With the important exception of peacekeeping, however, there is no agreed international system for measuring security spending that benefits global stability. Question 6 of this report highlights the significant and systematic gaps in data that make it difficult to assess how much is spent on security assistance, and to what ends. Based on available data, ODA allocated to building security sectors in fragile states totalled 1.4% of all aid in fragile situations in 2012. When security spending in Afghanistan and Iraq is removed, the investment in security in other fragile situations is even lower – less than 1%. Even if data gaps are dramatically biasing these figures downward, there is likely to be serious under-investment in countries that are aiming to develop their security and rule of law institutions as a matter of priority.

These types of spending all have the potential to reduce global fragility, and a more coherent system of measuring security spending as a global public good could support more effective international conflict prevention and resolution efforts. Any development of new norms for reporting is technically challenging given the need for precision and rigour, with countries potentially wary of the risks of repackaging international "militarised" and national security spending as ODA. Countries could consider whether to:

- Agree on norms and responsible global institutions for reporting and collating relevant peace and security spending.
- Develop indicators of impact of spending on peace and security.
- Agree on a methodology for monitoring spending on conflict prevention and for capturing how much is spent on conflict prevention versus intervention in existing conflicts and crises.

The OECD-DAC work on broadening its measurement framework to be fit for purpose for post-2015 presents an opportunity to assess the real level of investment in this area.

Question 7: What opportunities exist to address fragility?

The post-2015 process has catalysed an unprecedented debate about how to overcome obstacles to sustainable development. This political will can be harnessed. At the national level, fragile countries are increasingly directing their own processes of recovery. Many of these efforts will galvanise around implementing a post-2015 peaceful and inclusive societies goal.

Fragile countries and economies also will have to navigate factors that can unlock development – or impede it – in the post-2015 era. They will have increasingly young and urbanised populations; many will continue to manage the challenges of large natural resource endowments and deepening connections to global markets. With sound institutions in place, these factors can drive economic transformation and reduce poverty. Innovations in multi-sectoral responses to reducing violence, building trust in government and improving the quality of public services will all be paramount.

Question 8: What should international support look like in the future in order to be "fit for purpose"?

Fragile and conflict-affected countries are hard environments in which to spend aid well. On the recipient side, fragile states often have weaker institutions and absorptive capacity for aid. Many fragile situations have been poorly served by supply-driven aid approaches. Although donors place a heavy emphasis on co-ordination in fragile states, the reality is that in many contexts they still pursue distinct agendas. These challenges are often political: they reflect divergent interests of national and international actors that are difficult to shift. As a result of these pressures, aid is often less than the sum of its parts – it is not always delivered in ways that either align with national priorities or build sustainable institutional capacity. To rise to the challenge of the post-2015 era, aid needs to be made smarter.

To rise to the challenge of the post-2015 era, aid needs to be made smarter.

The New Deal endorsed in Busan in 2011 calls for aid to be aligned to national political priorities to build national institutions through national budgets. It is an assertion of national ownership. So far, however, New Deal implementation has only been partial. Political commitment is needed on all sides to build momentum and real change. It will be important for g7+ countries to strengthen uptake and understanding of the New Deal within governments and to engage all levels of society in the process.

This report calls for smarter demand-driven aid modalities and instruments in the post-2015 era. In particular, it will be essential to:

- **Adapt existing on-budget aid modalities** to more fragile situations to improve harmonisation and flexibility, and to accelerate the pace of development of national institutions and systems.
- **Test innovative smart aid modalities.** Southern actors are already experimenting with new forms of demand-driven support. "Matching funds" models, if properly calibrated, could reward demand-driven national innovations and performance in generating revenues. Greater efforts can also be driven into funding regional capacities for reducing fragility.
- **Scale up aid instruments that can stimulate private resources** but are currently under-utilised. Aid instruments such as risk guarantees, new debt instruments and equity investments can all assist countries to mobilise private finance.

Meeting universal development ambitions will be harder than ever in the post-2015 era. Question 8 highlights the potential contents of a new package of measures to better support fragile situations and reduce fragility. They include priority commitments to:

- **Introduce a new tool for monitoring universal fragility risks and vulnerabilities and finances** in the post-2015 era. This report proposes a working model that can form the basis for an international tool once post-2015 goals, targets and indicators have been agreed.
- **Allocate more of total ODA to the poorest and most fragile countries**, and reverse the declining trend of ODA to LDCs. It is important to keep in mind the existing UN target to allocate 0.15-0.20% of national income to least developed countries.
- **Address imbalances in the distribution of ODA across fragile situations**, starting with the countries that are underfunded.

- **Agree on strengthening finance beyond aid** – scaling up resources to middle-income countries; boosting countries' own domestic revenues; working to achieve firm international commitments to scale up support for public financial management; reducing the transaction costs of remittances; and a new global partnership for stemming illicit financial flows.
- **Agree on targets and norms for tracking spending on global public goods** such as peace and security, climate, food security and health.
- **Develop a diversified package of smart aid instruments** – to mobilise private development finance; reward domestic revenue generation; make more use of technology for reaching the poorest and most vulnerable people; and scale up South-South, regional and triangular co-operation.
- **Ensure that peer review and aid oversight mechanisms capture** performance and accountability for aid in fragile situations.
- **Implement a global system for collating credible, accurate, timely and relevant global statistics for all sources of development finance** – not just from traditional donors, but non-traditional providers of development co-operation and private actors too.

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Chapter 2

The changing face of fragility and its implications post-2015

This chapter addresses the first three questions:

Question 1: *How have fragile states fared in meeting the Millennium Development Goals?*

Question 2: *How should fragility be assessed post-2015?*

Question 3: *What obstacles does fragility pose to delivering the post-2015 agenda?*

Question 1: How have fragile states fared in meeting the Millennium Development Goals?

Fifty countries and economies are currently on the fragile states list compiled by the OECD, and half of them have featured on all lists since 2007. The Millennium Development Goals (MDGs) were ambitious targets for all developing countries, but have been most challenging for fragile situations. These countries started the MDG era with higher levels of deprivation and a longer road toward building resilient and effective institutions. While many fragile states have made important strides in improving human development, as a group they have lagged behind other developing countries in terms of MDG performance. In some fragile situations, progress has been offset – or eroded – by shocks, including instability and the onset of violent conflict.

A historical perspective reveals 23 chronically fragile countries

In 2005, the Senior Level Forum on Development Effectiveness in Fragile States proposed that a system be developed for monitoring resource flows to countries trapped in cycles of poverty, insecurity and weak governance (OECD, 2006).

The aim was to help international actors work more effectively to assist these states in making a sustainable exit from poverty and insecurity, while minimising any unintentional damage caused by international engagement (OECD, 2007). The first report reflected heightened concern that insufficient aid and other resources were being directed towards fragile states. It monitored 35 countries and found: "From the long list of fragile states, there is a small group of countries that receive low aid flows in relation to governance indicators and/or that experience high volatility of aid flows and international engagement" (OECD, 2006).

In each subsequent year, a new list has been generated of states and economies in situations of fragility and conflict. In 2015, 50 countries and territories – home to 1 in 5 of the world's people – are on a list that is generated by combining the Harmonized List of Fragile Situations produced by the World Bank, the Asian Development Bank and the African Development Bank (World Bank, 2014a), with countries scoring 90 or above on the Fragile States Index of The Fund for Peace (FFP, 2014) (see Annex A).

Any list that results from collapsing several measures into one dimension has limitations and cannot capture the diversity of fragile situations, or the spectrum of responses from societies that are actively attempting to reduce risk and increase resilience (Table 2.1 [Q.1]). Under Question 2, alternative approaches to assessing fragility are explored. These are directly relevant to the post-2015 development agenda that will replace the MDGs. However, the traditional list approach to fragility continues to allow policy makers to monitor financial flows to the most vulnerable states. It offers insights into the strength, effectiveness and predictability of these flows, and allows gaps to be identified in the response to the most vulnerable countries.

Box 2.1. **(Q.1) Key characteristics of the 2015 list of fragile states and economies**

- Fifty countries and economies that are home to 1.4 billion people or 20% of the world's population. (2015)
- Their population is projected to grow to 1.9 billion in 2030 and 2.6 billion in 2050.
- Bosnia and Herzegovina* has the highest life expectancy (76 years) and Sierra Leone the lowest (45 years). (2012)
- The median population age of people living in fragile situations is 21, compared to the global median of 30 years. (2013)
- Gross domestic product (GDP) ranges from USD 522 billion (Nigeria) to USD 1 billion (Solomon Islands). (2013)
- Per capita gross national income (GNI) ranges from USD 6 710 (Iraq) to USD 270 (Malawi). (2013)
- Poverty is concentrated in fragile situations: not only are these states home to 43% of the world's people living on less than USD 1.25/day but also to 35.8% of those living on less than USD 2/day. (2013)
- The majority (27) of fragile states on the list in 2015 are low income; sub-Saharan Africa, with 28 of the states on the list, is by far the most represented region.

* The Syrian Arab Republic had the highest life expectancy in 2012 at 76.1 years, but taking into account the current conflict and its effects on life expectancy following 2012, Bosnia and Herzegovina (life expectancy of 75.8 years) is shown here.

Sources: Projected population calculated using: United Nations Department of Economic and Social Affairs (DESA), Population Division, Population Estimates and Projections Section (2012), "Total population – Both sexes" dataset using Medium Fertility projections, *World Population Prospects: The 2012 Revision*, available at: *http://esa.un.org/unpd/wpp/Excel-Data/population.htm*; Median age data drawn from UN (2014a), "Median age (years)", UN Data, available at: *https://data.un.org/Data.aspx?d=PopDiv&f=variableID%3A41*; Additional population figures from World Bank (2014f), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL*; Life expectancy, GDP, GNI and poverty data from World Bank (2014g), "Life expectancy at birth, total (years)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.DYN.LE00.IN*; World Bank (2014h), GDP figures (in current USD), *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014i), GNI figures (in current USD), *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GNP.MKTP.CD*; World Bank (2014j-k) Poverty headcount ratio figures at $1.25 and $2 a day (% of population), *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SI.POV.DDAY* ($1.25/day), *http://data.worldbank.org/indicator/SI.POV.2DAY* ($2/day); International Futures model; OECD income classification.

Table 2.1. **(Q.1) Strengths and weaknesses of a fragile states list**

Strengths	Weaknesses
✓ Focuses attention on some of the most vulnerable states	× Threshold for inclusion on the list is arbitrary
✓ Integrates a range of inputs and indicators	× Some states hover close to the boundary for inclusion
✓ Enables monitoring of data	× Does not capture important dimensions of stability
✓ Facilitates comparisons of trends in development assistance	× Some states do not find their inclusion helpful

A retrospective look at the fragile states list used by OECD reports also offers insights into the duration and evolution of fragility (Table 2.1 [Q.1]).[1] Between 2007 and 2015, 67 countries and economies have been included on at least one fragile states list. Some countries have joined the list recently, as political instability and conflict eroded their institutional capacity. Others have experienced significant governance improvements and are no longer listed. A third group has moved on and off, oscillating around the list's cut-off point.

In some years, the list has changed significantly due to major global events that have had an impact on multiple countries. In 2014, for example, eight countries (Burkina Faso, Egypt, Libya, Madagascar, Mali, Mauritania, the Syrian Arab Republic and Tuvalu) joined the list – in part because of the dramatic influence of the Arab Spring – while four countries (Georgia, the Islamic Republic of Iran, Kyrgyzstan and Rwanda) moved off the list.

In 2015, changes are modest. Rwanda has returned to the list, reflecting the experience of a country that has seen important development progress but remains borderline for inclusion or exclusion. Angola and Burkina Faso are no longer included on the list, although they too remain close to the criteria for inclusion.

Of most concern perhaps is the group of 23 countries that have appeared on every list. Although all 67 countries that have been fragile require some attention, this smaller group of chronically fragile countries demands particular effort, as its members face more persistent institutional and development challenges and recurrent patterns of violence.

Table 2.2. **(Q.1) Fragile states and economies over time, 2007-15**[1]

Have been on the list at least once (years)	On the 2015 list	On every list
Afghanistan (2007-15)	Afghanistan	Afghanistan
Angola (2007-14)		
Bangladesh (2011-15)	Bangladesh	
Bosnia and Herzegovina (2013-15)	Bosnia and Herzegovina	
Burkina Faso (2011, 2014)		
Burundi (2007-15)	Burundi	Burundi
Cambodia (2007-09)		
Cameroon (2007-15)	Cameroon	Cameroon
Central African Republic (2007-15)	Central African Republic	Central African Republic
Chad (2007-15)	Chad	Chad
Comoros (2007-15)	Comoros	Comoros
Congo (2007-12, 2014-15)	Congo	
Côte d'Ivoire (2007-12, 2014-15)	Côte d'Ivoire	
Democratic People's Republic of Korea (2008-15)	Democratic People's Republic of Korea	
Democratic Republic of the Congo (2007-15)	Democratic Republic of the Congo	Democratic Republic of the Congo
Djibouti (2007-10)		
Egypt (2014-15)	Egypt	
Equatorial Guinea (2008-10)		
Eritrea (2007-15)	Eritrea	Eritrea
Ethiopia (2008-15)	Ethiopia	
Gambia (2007-11)		
Georgia (2011, 2013)		
Guinea (2007-10, 2013-15)	Guinea	
Guinea-Bissau (2007-15)	Guinea-Bissau	Guinea-Bissau
Haiti (2007-15)	Haiti	Haiti
Iran (2013)		
Iraq (2008-15)	Iraq	
Kenya (2008-15)	Kenya	
Kiribati (2007-15)	Kiribati	Kiribati
Kosovo (2013-15)	Kosovo	
Kyrgyzstan (2013)		
Lao People's Democratic Republic (2007-09)		
Lebanon (2011)		
Liberia (2007-15)	Liberia	Liberia
Libya (2014-15)	Libya	
Madagascar (2014-15)	Madagascar	

Table 2.2. **(Q.1) Fragile states and economies over time, 2007-15**[1] *(cont.)*

Have been on the list at least once (years)	On the 2015 list	On every list
Malawi (2011-15)	Malawi	
Mali (2014-15)	Mali	
Marshall Islands (2013-15)	Marshall Islands	
Mauritania (2007-09, 2014-15)	Mauritania	
Micronesia (2013-15)	Micronesia	
Myanmar (2007-15)	Myanmar	Myanmar
Nepal (2007-15)	Nepal	
Niger (2007-15)	Niger	Niger
Nigeria (2007-15)	Nigeria	Nigeria
Pakistan (2008-15)	Pakistan	
Papua New Guinea (2007-11)		
Rwanda (2008-10, 2013, 2015)	Rwanda	
Sao Tome and Principe (2007-11)		
Sierra Leone (2007-15)	Sierra Leone	Sierra Leone
Solomon Islands (2007-15)	Solomon Islands	Solomon Islands
Somalia (2007-15)	Somalia	Somalia
South Sudan (2013-15)	South Sudan	
Sri Lanka (2011-15)	Sri Lanka	
Sudan (2007-15)	Sudan	Sudan
Syrian Arab Republic (2014-15)	Syrian Arab Republic	
Tajikistan (2007-11)		
Timor-Leste (2007-15)	Timor-Leste	Timor-Leste
Togo (2007-15)	Togo	Togo
Tonga (2007-10)		
Tuvalu (2014-15)	Tuvalu	
Uganda (2008-15)	Uganda	
Uzbekistan (2007-09, 2011)		
Vanuatu (2007-09)		
West Bank and Gaza Strip (2010-15)	West Bank and Gaza Strip	
Yemen (2007-15)	Yemen	Yemen
Zimbabwe (2007-15)	Zimbabwe	Zimbabwe
Total: 67	Total: 50	Total: 23

1. The OECD did not publish a fragile states report for 2012.

Fragile states are diverse, but have weak institutions in common

The 2015 fragile states list includes countries and economies with diverse experiences of fragility and equally varied development challenges (see Box 2.4 [Q.2]).

Some countries are in crisis, struggle with conflict, or face urgent and critical threats to human well-being. In countries such as the Central African Republic, Iraq and the Syrian Arab Republic, conflict has destroyed or significantly degraded governance structures, institutions and infrastructure, and warring parties contest political control. In all, 16% of those on the current list are in the midst of a serious conflict (more than 1 000 battle deaths per year) and a further 20% are experiencing a minor conflict (Uppsala University, 2014).

Natural disasters and extreme weather events also have long-lasting impacts on countries with weak institutions, as is shown by Haiti's slow recovery from the earthquake of 2010 (IFRC, 2014). Over the past decade, ten fragile states have experienced an average of more than three natural disasters each year, with Afghanistan (105 disasters), Bangladesh (89 disasters) and Pakistan (83 disasters) especially vulnerable (World Bank, 2014c).

Most recently, the Ebola outbreak has hit Guinea, Liberia and Sierra Leone – all on the fragile states list (Box 2.2 [Q.1]). The Ebola crisis demonstrates fragile states' acute vulnerability to shocks, and underlines the importance of steady investment in basic health, disaster response and public administration systems.

Box 2.2. **(Q.1) The effect of Ebola**

The Ebola outbreak unfolding across West Africa led to over 9 900 deaths as of March 2015, according to the Centers for Disease Control and Prevention (CDC).[1] The vast majority of cases were reported in Liberia, Sierra Leone and Guinea, all countries that have appeared on fragile states lists. Mali and Nigeria, both also fragile, saw Ebola cases; Nigeria was declared free of the disease in October 2014.

Infectious disease is a global challenge, and dangerous pathogens have emerged in wealthy and stable countries as well as fragile situations (Woolhouse and Gaunt, 2007). But fragile health systems make it harder to combat an epidemic (Newbrander et al., 2011; Gayer et al., 2007). Shortages of trained medical personnel have caused critical lags in diagnosing and treating patients. Poor clinical infrastructure and a lack of basic medical supplies and protective equipment have spread infection, including among health workers and volunteers. Weak disease surveillance systems have caused some outbreaks to go undetected, making hotspots more difficult to eventually bring under control.

There is also evidence that lack of trust in state institutions has stymied efforts to stop Ebola transmission, leading some people to disregard government warnings about how to protect against infection.[2] Health workers, government officials and journalists have been attacked while responding to Ebola, while conspiracy theories have flourished among populations disinclined to believe official statements on the nature and causes of a complex emergency (Ammann, 2014). International actors have begun to mobilise to provide care and build clinical infrastructure. Faster and more concerted investment early in the crisis could have flattened the epidemic curve and better contained the outbreak.

The Ebola epidemic will have lasting consequences for states across West Africa. Trade and livelihoods have been disrupted; the World Bank estimated economic impacts ranging from USD 1.6-USD 5.2 billion in 2015. Fragile states are likely to be hardest hit (Jonas, 2014), and will face the greatest challenges in repairing strained health and governance systems.

The outbreak provides opportunities to draw lessons for addressing fragility, using the example of what the World Health Organization called Nigeria's "spectacular success" in containing the disease. Building capacity to respond to future outbreaks will require significant investment to fill gaps in basic health systems (Kruk et al., 2010). Such investments would have a direct impact on well-being by expanding public access to basic health services and contributing to national and community-level resilience, especially if they are combined with broader reforms that build public trust in governments.

1. Data are from the United States Center for Disease Control and Prevention (CDC), and current as of 12 March 2015. Mortality figures are likely to be under estimates. Data available at: *www.cdc.gov/vhf/ebola/outbreaks/2014-west-africa/case-counts.html*.
2. These have been widely reported in media. See, for example, *www.irinnews.org/report/100568/mistrust-of-government-spurs-ebola-spread* and *www.vox.com/2014/9/24/6838507/red-cross-attacked-in-guinea-while-working-to-fight-ebola-virus*.

Not all fragile states are currently in crisis. Some have emerged from periods of sustained violence and instability, and are at different stages of the long process of building more effective institutions and managing the legacy of conflict. Others do not have recent experience of conflict or other shocks. Of the 50 fragile states, 22 have seen few, if any, battle deaths over the past decade, while 31 have experienced fewer natural disasters than the OECD average (Uppsala University, 2014).

However, all of these countries have either weak institutions or, in some cases, strong but abusive institutions. They may be unable to meet the aspirations of their citizens for equitable and inclusive development, and also face heightened risk of experiencing crisis. Historical, political and social factors, often including a weak social contract and a lack of capacity to respond to shocks and stresses, can mean that the chances of a future political, social or humanitarian failure are high (OECD, 2008).

Fragile states still lag behind on the Millennium Development Goals

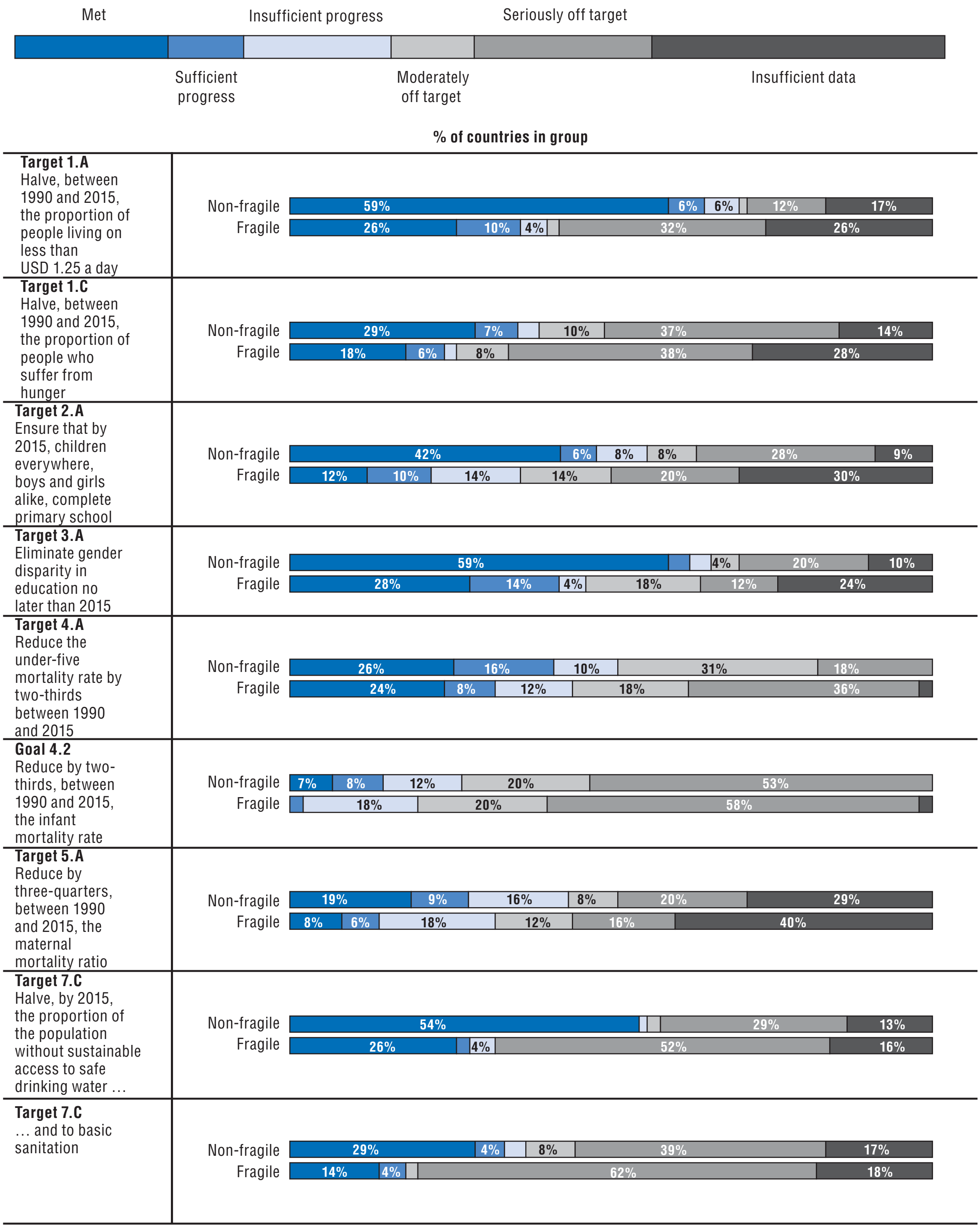
Fragility has a significant impact on human welfare. Fragile states make slower development progress than countries with more robust institutions; within states, communities that experience the highest levels of violence and instability are least likely to experience improvements in their livelihoods.

Fragile states and economies continue to lag behind other developing countries in achieving the MDGs, as demonstrated by an analysis of targets for poverty, child survival, education and water (Figure 2.1 [Q.1]):

- **Poverty.** The 50 states and economies on the 2015 list account for only 20% of the global population but 43% of the world's poor. According to World Bank projections, nearly two-thirds of currently fragile countries will fail to halve poverty by 2015. By comparison, only a third of other developing countries will fall short of this target.
- **Child survival.** Both fragile and non-fragile states have made impressive progress in reducing child mortality. Nonetheless, while 15% of non-fragile states are projected to reduce the under-five mortality rate by two-thirds by 2015, only one fragile state will reach this goal.
- **Education.** Just one-fifth of fragile states and economies are on track to achieve universal primary schooling, compared to nearly half of non-fragile developing countries.
- **Water.** Only 28% of fragile states are on track to halve the number of their citizens without access to safe water, while 61% of non-fragile countries have reached this target. Fragile states have also made slower progress on sanitation.

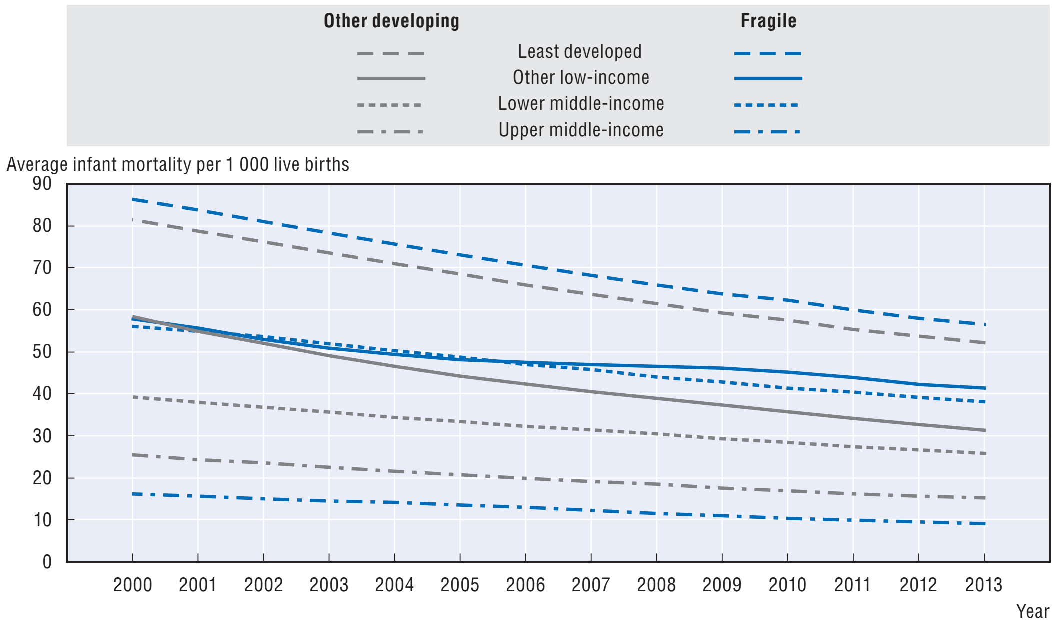
The construction of the MDGs can hide important successes in the poorest and least stable states, given that some have made significant improvements from a low starting point of human development (Easterly, 2009). For example, on child survival (Figure 2.1 [Q.1]), absolute progress in reducing under-five mortality has been comparable in fragile and non-fragile states. This provides some cause for optimism for the future, although – as is discussed later in this chapter – business-as-usual trajectories suggest that states and economies on the list will continue to face significant barriers to development as implementation of the new development agenda begins in 2016.

Figure 2.1. **(Q.1) Progress toward the Millennium Development Goals among fragile and non-fragile states**



Source: Authors' calculations using estimates from the World Bank Group (2014d), "Progress towards MDGs", in: *Global Monitoring Report 2014/2015: Ending Poverty and Sharing Prosperity* as of 20 October 2014, available at: *http://worldbank.org/prospects/gmr14*.

Figure 2.2. **(Q.1) Infant mortality rates by country group, 2000-13**



Source: Authors' calculations using estimates from the World Bank Group (2014d), "Progress towards MDGs", in: *Global Monitoring Report 2014/15: Ending Poverty and Sharing Prosperity* as of 20 October 2014, World Bank, Washington, DC, available at: *http://worldbank.org/prospects/gmr14*.

StatLink http://dx.doi.org/10.1787/888933185058

More Millennium Development Goal data is available, but still with gaps

Any assessment of progress towards the MDGs must be made with some caution, as data are incomplete or missing for many developing countries. Data gaps are greatest for fragile states and economies, and most pervasive among the poorest and least stable of these situations.

That said, significant progress has been made in tracking some targets. Child survival and maternal mortality data are available for nearly every fragile state and economy, as are indicators on safe water and improved sanitation.[2] Poverty statistics are currently a weak point, with 13 fragile situations not reporting any household survey data since 1990 and a further 8 with only a single survey data point for the MDG era (see Table 2.3 [Q.1]). However, coverage of fragile states will improve as updated data from the World Bank's International Comparison Program (2011b) come into use.

The post-2015 development agenda seems certain to greatly increase demand for data to assess development progress (Box 2.3 [Q.1]). As the UN Secretary-General's Independent Expert Advisory Group on the Data Revolution for Sustainable Development (UNSG, 2014) has pointed out, "A huge increase in the capacity of many governments, institutions and individuals will be needed to deliver and use this data". The statistical systems of fragile states must develop the fastest in order to effectively track the new development agenda ("no one should be left behind"). This will require sustained investment in statistical systems.

Question 2: How should fragility be assessed in the post-2015 era?

This section offers a perspective on the nature of the challenge involved in promoting peaceful and inclusive societies. Fragility may be addressed directly as part of the post-2015 sustainable development agenda – and will certainly be addressed indirectly through

Box 2.3. **(Q.1) Bringing the data revolution to fragile states**

The data revolution called for by the High-Level Panel on the post-2015 agenda is needed most urgently in fragile states. In 2012, only 0.16% of official development assistance (ODA) went to building statistical capacity (PARIS21, 2013). Donors will need to make much larger investments to support basic statistical systems, including vital registration and population censuses, which provide the foundation for data gathering on core development targets.

Tackling fragility will require better data on the quality of governance, institutions and security (IDPS, 2013). These indicators are currently available only at the national level (for some years) and for many countries statistics on violence are generated with statistical models rather than data from the ground. More regular and granular data, including broad-based population surveys, are needed to ensure that "blind spots" do not obscure the needs of already vulnerable populations.

ICT-driven approaches such as crowd-sourced data (mobile polls and text message-based data collection) can provide valuable real-time information on corruption, household welfare, disaster response, and violence and instability, as demonstrated in the Harvard Humanitarian Initiative on crisis mapping and early warning. Sampling challenges make it difficult to leverage such data to fill gaps in basic statistics, however (Letouzé, 2012). "Dormant" data can also provide policy makers and planners with valuable insights. For example, Indonesia's National Violence Monitoring System scanned and analysed more than a decade of newspaper archives from across the country to identify and code violent incidents. The result is a structured data set that allows for analysis of trends in conflict and violence across time and space, and in near real time (SNPK, 2014). Many fragile states have similar repositories of information that could be leveraged to analyse trends in security over time.

a number of goals and targets. Inclusion of fragility issues offers the potential to address an acknowledged weakness of the MDGs with targets to reduce violence, strengthen institutions and promote rule of law. Proposals for the new agenda also include a focus on the resilience of societies and the economic foundations for sustainable development. This provides the basis for rethinking how fragility is assessed through an analysis that considers vulnerabilities that, if unaddressed, will make it impossible to meet the new Sustainable Development Goals (SDGs) by 2030.

A new approach to addressing fragility is emerging

At the 2012 UN Conference on Sustainable Development (Rio+20), governments committed to negotiate a new set of SDGs to replace the MDGs. The new development agenda will be finalised in September 2015, with goals and targets to run from 2016 to 2030.

Many fragile states will continue to struggle to finish the business of the MDGs and face daunting obstacles if they are to deliver these new goals. However, the success of the post-2015 agenda as a whole rests on the progress made by the weakest performers, given the proposed emphasis on:

- **Leaving no one behind.** Many of the goals and targets suggested by the Open Working Group are "zero-based" and can only be achieved by delivering results for all people in all countries.
- **Quality and outcomes.** UN member states are determined that the new agenda should deliver more than just access to services of dubious value.
- **Reducing inequality.** There is consistent emphasis on the inclusion of the most marginalised and disadvantaged groups, and on reducing persistent gaps within and between countries.

Table 2.3. **(Q.1) Availability of household survey data used to generate PovcalNet estimates**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2014
Pakistan	..	•	..	..	..	..	..	•	..	•	..	..	•	..	..	•	•	..	•	..	..	•	..	..
Uganda	..	..	•	..	..	..	•	..	..	•	..	..	•	..	..	..	•	..	..	•	..	..	..	•
Madagascar	..	..	..	•	..	..	..	•	..	•	..	•	..	..	..	•	..	..	..	..	•	..	..	..
Bangladesh	..	..	•	..	..	..	•	..	..	..	•	..	..	..	..	•	..	..	..	..	•	..	..	..
Côte d'Ivoire	..	..	..	•	..	•	..	..	•	..	..	..	•	..	..	..	..	..	•	..	..	..	..	..
Egypt	..	•	..	..	..	..	•	..	..	..	•	..	..	..	..	•	..	..	•	..	..	..	..	..
Guinea	..	•	..	..	•	..	..	..	..	..	..	..	..	•	..	..	..	•	..	..	..	..	•	..
Mauritania	..	..	..	•	..	..	•	..	..	..	•	..	..	..	•	..	..	..	•	..	..	..	..	..
Niger	..	..	•	..	•	..	..	..	..	..	..	..	..	..	..	•	..	..	•	..	..	•	..	..
Sri Lanka	..	•	..	..	..	..	•	..	..	..	..	..	•	..	..	..	..	•	..	..	•	..	..	..
Ethiopia	..	..	..	..	..	•	..	..	..	..	•	..	..	..	..	•	..	..	..	..	..	•	..	..
Kenya	..	..	•	..	•	..	..	•	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..
Mali	..	..	..	..	•	..	..	..	..	..	..	•	..	..	..	..	•	..	..	..	•	..	..	..
Nigeria	..	..	•	..	..	..	•	..	..	..	..	..	..	..	•	..	..	..	..	..	•	..	..	..
Bosnia and Herzogovina	..	..	..	..	..	..	..	..	..	..	..	•	..	..	•	..	..	•	..	..	..	..	..	..
Burundi	..	..	•	..	..	..	..	..	•	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..
Cameroon	..	..	..	..	..	..	•	..	..	..	..	•	..	..	..	..	..	•	..	..	..	..	..	..
Central African Republic	..	..	•	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	•	..	..	..	..	..
Guinea-Bissau	..	•	..	•	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..	..	..	..
Malawi	..	..	..	..	..	..	..	..	•	..	..	..	..	..	•	..	..	..	..	..	•	..	..	..
Nepal	..	..	..	..	..	..	•	..	..	..	..	..	..	•	..	..	..	..	..	..	•	..	..	..
Rwanda	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	•	..	..	..	..	•	..	..
Sierra Leone	•	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	•	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	•	..	..
Congo	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	•	..	..
Iraq	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	•	..
Togo	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	•	..	..
West Bank and Gaza Strip	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	•	..	..	..	..
Yemen	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..
Comoros	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..	..
Democratic Republic of the Congo	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..
Haiti	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..	..	..	..	..
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..
Micronesia	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..
Syrian Arab Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..	..	..	..
Timor-Leste	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	•	..	..	..	..	..	..
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Democratic People's Republic of Korea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Kosovo	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Libya	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Marshall Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Myanmar	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Somalia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
South Sudan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Zimbabwe	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

.. No data.
• Data available.
Note: Horizontal lines group countries by the total number of years survey data is available.
Source: World Bank (2014e), PovcalNet, *http://iresearch.worldbank.org/PovcalNet/index.htm?4* (accessed in October 2014).

The UN Open Working Group (OWG) on Sustainable Development Goals has produced an initial proposal for 17 goals and 169 targets (UN, 2014b). While negotiations will continue to finalise these goals by the UN Special Summit on Sustainable Development in September 2015, this proposal makes it possible to discern the main features of the new agenda and to assess its implications for fragile situations. Notably, there is appetite to address fragility directly, with an emerging consensus that making progress in reducing poverty and supporting human development will require targets for substantial decreases in violence, improvements in access to justice and fundamentally stronger institutions.

This new approach to fragility addresses a gap in the current development agenda. The Millennium Declaration recognised the importance of peace and effective governance to human well-being and development, but the MDGs did not explicitly address the need to reduce violence, conflict and fragility. Many believe that this has posed significant obstacles to delivery of the MDGs. The African Union (2014), for example, has called for the "inextricable links between development and peace, security and stability" to be recognised as new development goals are agreed, and for a focus on preventing conflict and addressing its root causes.

The OWG responded by proposing a goal – currently SDG 16 – to "promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels", as well as a range of goals and targets that aim to increase the resilience of individuals, communities and countries and to build the economic foundations for greater prosperity.

These are ambitious objectives that widen the development agenda. The primary focus of the MDGs was on fighting poverty in developing countries. The new agenda will change this. It sets goals that are universally applicable to all countries and hold every government – including those of OECD countries – accountable for delivering targets at home (UN, 2012b). At the same time, the international community is committed to making greater efforts to "leave no one behind". Many of the goals and targets suggested by the OWG are "zero-based" and can only be achieved by delivering benefits to those people who face the greatest economic and social exclusion.

The tensions between universal and zero-based goals will require careful management by governments and international development actors. On one hand, the new development agenda is likely to encourage broader efforts to address fragility and build more resilient societies, including in countries not generally considered fragile. On the other, achieving the post-2015 agenda will require greater targeting of resources on the most vulnerable situations, and on the most vulnerable people within countries.

The new approach to fragility requires new tools for identifying priorities

After 2015, new approaches will be needed for monitoring fragility that are aligned with the new development agenda. These approaches will need to capture changing patterns of vulnerability and help ensure that resources are directed towards delivering commitments made by the international community.

Regardless of whether the peaceful and inclusive societies goal is included in the post-2015 agenda, there will be an urgent need to track multiple dimensions of fragility – not only institutional capacity, but constellations of risk and external stress factors that interact with capacity. This will shape the success of poverty eradication and social development.

It will not be easy. At present, there is a daunting gap between the goals being discussed for implementation from 2016 onwards and the available data to hold governments and the international community accountable for their delivery. Data are weakest in the most vulnerable countries. There is also a lack of quality data for assessing the targets set out under the peaceful and inclusive societies goal, and especially for targets that aim to reduce violence in all its forms.

Work to design indicators for the new agenda is in its early stages and the current volume does not intend to pre-empt this process. Neither does it wish to supplant community- or country-driven self-assessments, or add to the many fragility indices that already exist including well-designed indices that capture various aspects of institutional capacity, such as the Carleton University Country Indicators for Foreign Policy (see Box 2.4 [Q.2]).

Box 2.4. **(Q.2) Existing measures of fragility**

Indices and lists vary widely in their approach to conceptualising and measuring fragility. The most common approach looks at the degree to which states meet a set of basic functions: legitimacy, typically defined in terms of electoral democracy and civic and human rights protections; welfare, defined in terms of economic and social development; and security, measured in conflict and personal insecurity (Milliken and Krause, 2002).

Function-oriented indices include the Carleton University Country Indicators for Foreign Policy Index, the Brookings Index of State Weakness in the Developing World (Rice and Patrick, 2008), and the State Fragility Index (Marshall and Cole, 2014). The World Bank's Country Policy and Institutional Assessment (CPIA) also focuses on basic state functions and policies, but emphasises bureaucratic capacity and economic and regulatory policy, and does not address political, human and civic rights (World Bank, 2011a).

A second and related approach to measuring fragility focuses on identifying pressures and stress factors that can lead to war or institutional breakdown. Factors include uneven economic opportunity across social groups, elite factionalisation and weaknesses in the security sector. The primary example of this approach is the Fragile States Index produced by The Fund for Peace. Some indices blend these approaches, measuring both functions and stressors. The Global Peace Index of the Institute for Economics and Peace (IEP, 2014) is a notable example: it measures security force capacity, as well as stress indicators such as the proportion of the population that is incarcerated, violent demonstrations and displaced persons.

A third approach focuses on events and was developed by the Political Instability Task Force (2013) (see also Goldstone et al., 2010). This index identified and ranked states according to specific types of conflicts and institutional breakdowns ranging from civil war to regime instability and ethnic conflict. The primary limitation of event-based indices is that they are backward looking, and do not necessarily allow policy makers to identify states at risk.

Finally, there are self-assessment approaches that are intended to guide policy and implementation. The g7+ Fragility Spectrum is a diagnostic tool that is aims to "facilitate a self-assessment process that helps a country to understand its current position in the overall transition process, and to adjust its planning to the needs of [this] specific stage".

Instead, in order to promote debate and offer a fresh perspective, this report presents a new tool for analysing fragility based on internationally agreed global priorities for reducing fragility and building resilience. It uses existing data to present five dimensions of fragility that relate directly to post-2015 objectives at the national level (see Annex A for the methodology behind the construction of the indices):

1. Violence: reduction of violence
2. Justice: access to justice for all
3. Institutions: effective, accountable and inclusive institutions
4. Economic foundations: economic foundations, inclusion and stability
5. Resilience: capacity to prevent and adapt to shocks and disasters.

Figure 2.3. **(Q.2) The five dimensions of fragility**

VIOLENCE

Reduce all forms of violence and violent deaths everywhere.

- Battle deaths (Uppsala University, 2014).
- Interpersonal injuries – disability adjusted life years (DALYs) (WHO, 2014).
- Political instability – average of figures, perceptions of the likelihood of political instability and/or politically motivated violence including terrorism (World Bank, 2014b).

JUSTICE

Promote the rule of law at the national and international levels, and ensure equal access to justice for all.

- Birth registration – percentage of children under age 5 whose births are registered (UNICEF, 2014).
- Control of corruption – average of figures, perceptions of the extent to which public power is exercised for private gain (World Bank, 2014b).
- Rule of law – average of figures, perceptions of the extent to which agents have confidence in and abide by the rules of society (ibid.).

INSTITUTIONS

Develop effective, accountable and transparent institutions at all levels; reduce illicit financial flows and combat organised crime.

- Government effectiveness – average of figures, perceptions of public services, quality of civil service, degree of independence from political pressures, quality of policy formulation, credibility of commitment to policies (World Bank, 2014b).
- Regulatory quality – average of figures, perceptions of the ability of government to formulate and implement sound policies and regulations that permit and promote private sector development (ibid.).
- Voice and accountability – average of figures, perceptions of the extent to which a country's citizens are able to participate in selecting their government, freedom of expression and association, free media (ibid.).

ECONOMIC FOUNDATIONS

Reduce youth unemployment; promote economic, social and political inclusion.

- Doing Business Index – ease of doing business, average of a country's percentile rankings on ten topics (World Bank, 2013).
- Education years – scaled years of education (Barro and Lee, 2010).
- GDP growth – ten-year average (IMF, 2014).

RESILIENCE

Reduce exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters; build adaptative capacity.

- Income inequality (Gini Index) – (International Futures Model, 2014).
- Healthcare capabilities (US National Intelligence Council, 2008).
- Vulnerability – estimates the disaster risk of a country using internal and external factors (UNU-EHS, 2014).

Three dimensions relate directly to fragility and are drawn from the OWG's proposed SDG 16, which encompasses the goal of peaceful societies, justice for all and effective institutions. Two additional dimensions cover the threats faced by fragile states and the resources available to them – that is, their resilience when confronted with external and internal shocks and disasters, and their economic foundations for sustainable development.

These dimensions of fragility are not exhaustive. There are significant gaps in data on a range of important forms of social vulnerability including exposure to gender-based violence, crime and abuses by authorities. There are also data gaps that make it difficult to track the vulnerabilities of marginalised groups including displaced people. As the new framework is agreed upon and new and reliable data become available, the proposed model can encapsulate a growing number of internationally agreed measures of fragility. Moreover, in many countries data are currently insufficient to systematically track sub-national variations in fragility. Given the central influence of sub-national factors – including varying governance capacity and pockets of endemic social exclusion – on the challenges of reducing violence and eradicating poverty, such data will be crucial to the success of the post-2015 agenda (Parks et al., 2013).

Fragility is widely recognised as a multi-dimensional challenge. Rigorous approaches to analysing fragility allow for its dimensions to be separately monitored (Carment et al., 2009; Rice and Patrick, 2008). Considering several dimensions of fragility separately differs from the traditional approach to tracking fragility (used, for instance, in previous OECD *Fragile States* reports) in several important respects. Rather than highlighting a single set of particularly vulnerable countries, it groups together those contexts that face quite distinct risks and development challenges. These include endemic violence, economic instability and weak institutions. Identifying subsets of countries facing specific forms of fragility and vulnerability will allow for a more focused prioritisation of development assistance. Comparing actual aid flows with the characteristics of fragile environments could also improve the monitoring of aid, by offering a more nuanced and meaningful assessment of the extent to which aid is targeting the greatest needs in each country. Tracking fragility on a universal basis will also shed light on remaining development challenges facing middle-income and wealthy countries as well as low-income states.

Analysing multiple dimensions of fragility will deepen the debate on the data and analysis that will be needed to underpin delivery of the post-2015 agenda in fragile environments. It could also provide a foundation for future OECD reports to set out a revised analysis aligned with the finalised development agenda for 2016-30, with further methodological refinements as new data are collected to support this agenda.

The five dimensions of fragility reveal distinct patterns of vulnerability

The Venn diagram (Figure 1.1) in Chapter 1 shows the countries that rank among the 50 most vulnerable under two or more dimensions of fragility. As expected, countries that are at risk across multiple dimensions are the most likely to have been previously identified as being fragile. Figure 2.4 (Q.2) shows a systematic breakdown of the same countries and economies.

Figure 2.4. **(Q.2) Fragility clusters across states and economies**

Countries ranking among the 50 most vulnerable in two or more dimensions

Twenty-one of them appear in four or more clusters. Of these, only two (Equatorial Guinea and Swaziland) are not on the 2015 fragile states list, and one (Swaziland) has never been considered fragile (Table 2.4 [Q.2]). However, when each cluster is reviewed separately, there is a marked divergence with past assessments of fragility. The greatest divergence shows the **violence (peaceful societies)** cluster. It is based on targets for countries to reduce all forms of violence. These targets:

- Have obvious implications for conflict-affected states and for countries with weak institutions and governance capacity.
- Direct attention towards societies that experience high levels of crime and domestic and gender-based violence.
- Will increase the focus on illicit flows, organised crime and other transnational stresses that drive violence across borders.

This cluster has been constructed using indicators that capture levels of violence (both from armed conflict and interpersonal violence) and perceptions of the likelihood of future political instability or politically motivated violence. Of the 50 most vulnerable countries in this cluster, 20 have never been included on the list of fragile states and economies.

The **access to justice** and **effective institutions** clusters are more closely aligned to current conceptions of fragility, although the targets being considered for the post-2015 agenda should focus attention on disadvantaged communities in all countries where

Table 2.4. **(Q.2) Characteristics of the post-2015 fragility clusters**

Cluster	Violence	Justice	Institutions	Economic foundations	Resilience
Number of countries in each cluster that have appeared on the list of fragile states and economies					
Have been on the list of fragile states	30	41	40	38	37
Have never been on the list of fragile states	20	9	10	12	13
Number of countries in each cluster that are on the current (2015) list of fragile states and economies					
Currently fragile	28	33	33	32	31
Not currently fragile	22	17	17	18	19

Source: Authors' calculations based on fragility indicators listed in Figure 2.3 (Q.2).

inequality tends to be exacerbated by weak institutions and exclusion from the justice system. Given increasing emphasis on legal identity as a foundational element of access to justice, the justice cluster includes this measure, along with data on corruption and rule of law (Open Society Foundations, 2014). The institutions cluster includes measures of government effectiveness, regulatory quality, and voice and accountability.

Fifteen countries that have never appeared on the fragile states list figure in one or both of the justice and institutions clusters.[3] Both of these clusters are dominated by sub-Saharan African states, but a substantial number of South and East Asian states are present in each cluster. The relatively large number (seven) of Middle East and North African states in the institutions cluster reflects the continuing reverberations of the Arab Spring.

The **economic foundations** cluster is based on indicators for regulatory quality, past economic performance and future economic potential, with workforce education levels acting as a proxy for the latter. Twelve countries that have never been on a fragile states list are included in the most vulnerable in this cluster.

Finally, the **resilience** cluster draws together three types of risk:

- A society's exposure and susceptibility to natural disasters.
- The strength of its health system, which is taken as representative of broader mechanisms for responding to risks to well-being.
- Levels of inequality, which are included as a proxy for the social cohesion needed to respond to stresses.

A quarter of the countries that are most vulnerable in this cluster have never been on a fragile states list. This group of countries, evenly split between Latin America and the Caribbean and Africa, may prove unexpectedly vulnerable to extreme weather events, epidemics, economic and resource shocks, and other forms of crisis.

The five dimensions of fragility provide a basis for future analysis

This new analysis presents a different landscape of risk than the traditional list approach. The five dimensions of fragility offer greater insights into the complex nature and distribution of the vulnerabilities that will need to be addressed as part of the new development agenda. This highlights the need for new approaches to assessing and monitoring fragility using metrics that do not reduce fragility measures to a single index but rather allow for tracking across multiple (and potentially uncorrelated) dimensions. This disaggregated approach is a base for further development once the post-2015 agenda has been finalised and implementation begins in 2016, and as data begin to be collected for new targets and indicators.

In the following section, the new analysis is used to reflect the challenges of institution building and poverty reduction between 2016 and 2030. It offers insight into the distinctive challenges facing all countries as they attempt to provide sustainable development for their citizens.

Question 3: What obstacles does fragility pose to delivering the post-2015 agenda?

The emerging post-2015 agenda represents a substantial leap in ambition over the MDGs, especially for countries that have struggled to deliver some or all of the existing development goals. The vast majority of the targets proposed by the OWG are more demanding than their MDG equivalent.

This section offers a perspective on the nature of the challenge involved in promoting peaceful and inclusive societies for sustainable development, and in ensuring that fragility does not imperil delivery of the post-2015 agenda as a whole. It underscores the urgency for addressing fragility, especially by building effective, accountable and inclusive institutions. Scenarios that project the scale and distribution of global poverty presented in this section illustrate the transformative changes that will be needed to strengthen peaceful and inclusive societies by the 2030 deadline.

Left unaddressed, fragility will make it much harder to end poverty by 2030

At Rio+20, the world's leaders affirmed that "eradicating poverty is the greatest global challenge facing the world today and an indispensable requirement for sustainable development" (UN, 2012a). As discussed in Question 1, the aspiration to end poverty can only be achieved if fragility is addressed and states that have made slow progress towards the MDGs see rapid improvements in their development trajectory.

The scale of this challenge is significant. Poverty projections often assume that the same states and economies will continue to be fragile, and that no new countries will fall into conflict or face weakening institutions. Yet fragility is dynamic. Some countries will stabilise and reform. Others will become fragile, with potentially devastating impacts on poverty and human development. This report therefore presents a set of scenarios based on a dynamic assessment of future fragility (Box 2.5 [Q.3]). The aim is to:

- Alert policy makers to the extent to which absolute poverty will become concentrated in countries with weak institutions on current trajectories, putting out of reach the proposed post-2015 goal to "end poverty in all its forms everywhere" (UN, 2012b).
- Demonstrate the pace of improvements in institutions and governance that will be needed so that the development agenda does not leave behind those who live in fragile situations.
- Explore the feasibility of these changes, given historical track records in forming strong, legitimate and resilient states.

The scenarios model potential scales and distributions of global poverty under different sets of assumptions. They use the International Futures model (2014), which employs 2 600 data series covering 186 countries' economies, health, infrastructure, governance and education to generate estimates over time. They also draw upon scenario parameters developed by Burt et al. (2014; see Annex A for additional details).

Box 2.5. **(Q.3) Scenarios in fragile situations**

Outlining the potential for good and bad outcomes in fragile situations

Three scenarios for the potential future scale of global poverty in fragile states illustrate the interconnection between these goals. The scenarios are not intended as predictions, but instead serve to illustrate the wide range in potential landscapes of global poverty under different assumptions about the international community's success in addressing fragility. This box presents three scenarios derived using the International Futures (IF) model: 1) a business-as-usual scenario in which institution building and reform stagnate; 2) an optimistic scenario in which institutions improve and intra-state conflict quickly declines; 3) a scenario in which institutions improve, with rapid and positive second-order effects on development.

Current trend

The trends that emerge from the World Bank's Country Performance and Institutional Assessment (CPIA) shows scores are largely stagnant. This business-as-usual scenario assumes a continuation to 2030 of this stagnation in institution building and reform. The IF model includes a base case that assumes most countries' institutions will improve over the long term.

Improved institutions

This moderately optimistic scenario assumes a decrease in the risk of conflict and improved government performance across a range of core dimensions of governance: increased government revenues, decreased government corruption, improved democracy and increased gender empowerment.

Improved institutions and development

This best-case scenario assumes the governance improvements outlined above, as well as their potential second-order impacts on development outcomes. These impacts are specified using a scenario from Burt et al. (2014) that assumes declines in total fertility rate (population growth), improvements to education and access to social services, and increased flows of foreign direct investment.

It is important to stress that these scenarios are not predictions. Instead, they are estimates that aim to illustrate the wide range of potential trajectories of global poverty under differing sets of assumptions about progress in addressing fragility.

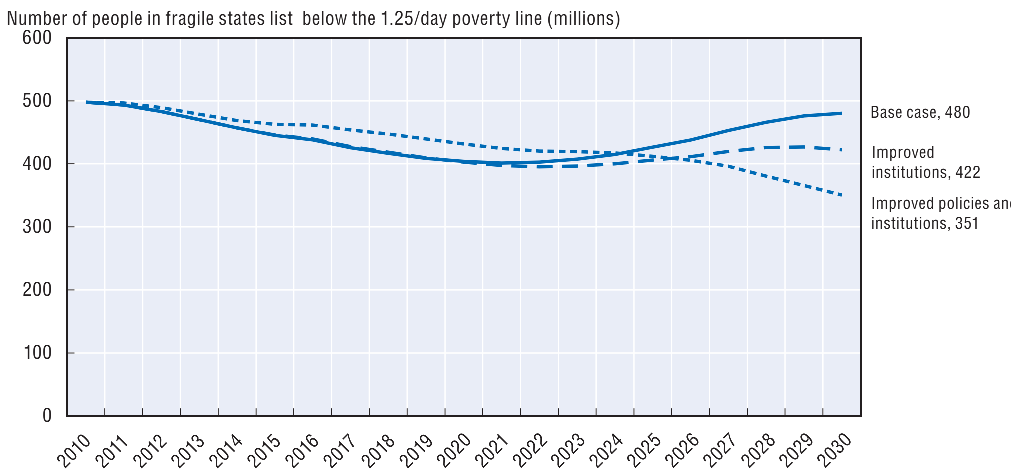
Together, poverty distributions under three scenarios, illustrated by Figure 2.5 (Q.3), suggest that:

- **Fragility will have a significant impact on the scale of global poverty.** Under the current trend scenario, 25% of people in situations currently considered fragile (nearly 500 million people) will remain at or below the USD 1.25/day poverty line in 2030. Under the more optimistic improved institutions scenario, the share of people living in absolute poverty (USD 1.25/day) in fragile states falls to 22% (420 million) while the best-case scenario sees a fall to 19% (350 million).
- **Reducing poverty will require addressing fragility.** While 43% of the world's poor now live in countries and economies on the 2015 fragile states list, by 2030, poverty could become increasingly concentrated in fragile states. Even under the best-case scenario, 62% of the global poor will be located in fragile states.

- **Unprecedented rates of progress will be needed to end poverty.** Even in the best-case scenario of improved institutions and development, which assumes major improvements to institutional capacity and reductions in violent conflict, fragile states will have large pockets of endemic poverty.

Figure 2.5. **(Q.3) Fragility and poverty projections**

Poverty rate at USD 1.25/day



Source: Authors' calculations using the International Futures Model.

StatLink http://dx.doi.org/10.1787/888933185025

In addition to the scenarios explored here, worst-case scenarios should also be considered. If more countries experience conflict, or serious political turbulence, it could be found that the poverty reduction of the MDG era (and especially the 2000s) was an anomaly. The sharp and extreme decline in human development in the Syrian Arab Republic demonstrates the potentially devastating impacts of large-scale violence in a country that made substantial progress in health, education and economic development.

It will take time to build the institutions needed to underpin new development goals

As discussed above, the post-2015 development agenda is likely to take up the challenge of building peaceful and inclusive societies, strengthening institutions and ensuring access to justice for all.

This task is urgent, given the time it takes for effective institutions to develop. Poverty estimates for the current trend and improved institutions scenarios only begin to significantly diverge after a decade. Progress in building better functioning states will therefore need to accelerate rapidly in the early days of the post-2015 era for any realistic hope of meeting proposed targets on income and other forms of poverty. Delay will be fatal to the core aspiration of the agenda.

How feasible, then, is the decline in fragility envisaged by the OWG's peaceful societies goal? Few data are available to assess current prospects for reducing "all forms of violence" as proposed in its target 16.1 (UN, 2014b). As discussed, levels of conflict declined during the MDG era, but there are more recent signs of a worrying increase. It is not possible to determine whether the recent trends towards greater conflict and instability will continue.

Time series data for other forms of collective and interpersonal violence are limited in scope, and data on some important forms of violence, including domestic violence and violence against children, are sparse. However, homicide data provide some insights. They demonstrate the potential for countries to achieve substantial reductions in murder rates. UNODC statistics (2013) show 7 countries experiencing more than a 50% fall in homicides between 2000 and 2012, and another 18 seeing up to a 30% decrease.

The data also suggest that endemic interpersonal violence can be difficult to extinguish. A quarter of the world's countries, home to 19% of its people, account for more than 50% of its murders. Within countries, the burden of violence is often highly inequitably distributed. For example, in the United States, the murder rate is six times higher for African-Americans than for white Americans (Smith and Cooper, 2013). Halving the murder rate in any one of the countries most affected by violence is within historical precedent. To do so in most of them is not, however, especially given the lack of access to justice and security institutions experienced by the most marginalised groups.

In terms of building effective, accountable and inclusive institutions, time series data allow for a rough estimation of the acceleration in progress that will be needed if the new agenda is to be delivered. Three projections are used to demonstrate the urgency of the task. These projections build on work by Pritchett et al. (2013) and use World Bank data on governance to estimate how long countries would take to reach a threshold for "acceptable" institutional quality at different potential rates of progress (see Annex A for the methodology). They illustrate that even under fairly optimistic assumptions, delivering progress on effective and accountable institutions will be a major challenge.

In short, **the pace of institution building will need to accelerate:**

- Under a business-as-usual projection, in which each country's institutions develop on pace with its historical trajectory, only two countries would reach the threshold for "acceptable" institutional quality by 2030.
- Under the modestly optimistic projection, in which all states' institutions improve at the historical 70th percentile rate, only 3 states would pass the threshold by 2030.
- Even if countries improve at the rate achieved by history's strongest performers, ten fragile states would still fail to build adequate institutions by 2030.

Fragility needs to be addressed immediately if development goals are to be met by 2030

The post-2015 development agenda will be much broader and more ambitious than the MDGs, with governments committed to goals that cover all dimensions of sustainable development and that must be implemented in all countries.

But, as this chapter has shown, ending poverty in all its forms should remain at the heart of the new agenda. It is an objective that can only be delivered through unprecedented rates of progress in fragile states and economies. The analysis has focused on income poverty, but a similar argument could be made for health and nutritional status, for education outcomes and for other dimensions of well-being.

Moreover, fragility is, itself, a marker of inequality. People who live in fragile situations are at heightened risk of experiencing violence and are less likely to benefit from robust institutions and access to justice. They face the greatest risk of conflict and have less

Table 2.5. **(Q.3) Institutions, institutions, institutions**

Projections for progress in building institutions

Business as usual			Modest scenario			Best-case scenario		
Make by 2030	Will not make by 2030		Make by 2030	Will not make by 2030		Make by 2030		Will not make by 2030
Cabo Verde	Afghanistan	Iran	Cabo Verde	Afghanistan	Iraq	Afghanistan	Haiti	Democratic People's Republic of Korea
Liberia	Algeria	Iraq	Cambodia	Algeria	Lao People's Democratic Republic	Algeria	Iran	Democratic Republic of the Congo
	Angola	Lao People's Democratic Republic	Liberia	Angola	Liberia	Angola	Iraq	Equatorial Guinea
	Azerbaijan	Libya		Azerbaijan	Libya	Azerbaijan	Lao People's Democratic Republic	Eritrea
	Bangladesh	Madagascar		Bangladesh	Madagascar	Bangladesh	Liberia	Myanmar
	Belarus	Mauritania		Belarus	Mauritania	Belarus	Libya	Somalia
	Burundi	Myanmar		Burundi	Myanmar	Burundi	Madagascar	Sudan
	Cambodia	Nepal		Central African Republic	Nepal	Cabo Verde	Mauritania	Syrian Arab Republic
	Central African Republic	Nigeria		Chad	Nigeria	Cambodia	Nepal	Turkmenistan
	Chad	Pakistan		Comoros	Pakistan	Central African Republic	Nigeria	Uzbekistan
	Comoros	Sierra Leone		Congo	Sierra Leone	Chad	Pakistan	Zimbabwe
	Congo	Somalia		Côte d'Ivoire	Somalia	Comoros	Sierra Leone	
	Côte d'Ivoire	South Sudan		Cuba	South Sudan	Congo	South Sudan	
	Cuba	Sudan		Democratic People's Republic of Korea	Sudan	Côte d'Ivoire	Swaziland	
	Democratic People's Republic of Korea	Swaziland		Democratic Republic of the Congo	Swaziland	Cuba	Tajikistan	
	Democratic Republic of the Congo	Syrian Arab Republic		Djibouti	Syrian Arab Republic	Djibouti	Togo	
	Djibouti	Tajikistan		Equatorial Guinea	Tajikistan	Ethiopia	Venezuela	
	Equatorial Guinea	Togo		Eritrea	Togo	Fiji	Viet Nam	
	Eritrea	Turkmenistan		Ethiopia	Turkmenistan	Guinea	Yemen, Rep.	
	Ethiopia	Uzbekistan		Fiji	Uzbekistan	Guinea-Bissau		
	Fiji	Venezuela		Guinea	Venezuela			
	Guinea	Viet Nam		Guinea-Bissau	Viet Nam			
	Guinea-Bissau	Yemen		Haiti	Yemen			
	Haiti	Zimbabwe		Iran	Zimbabwe			

Source: Author's calculations based on Pritchett, L. et al. (2013), "Looking like a state: Techniques of persistent failure in state capability for implementation", *Journal of Development Studies*, Vol. 49, No. 1, pp. 1-18, Taylor & Francis, London.

resilience to extreme weather events and other natural disasters. Aside from its impact on poverty, economic development and the provision of social services, the failure to build a peaceful and inclusive society exerts a heavy price on the world's most vulnerable people.

Fragility is, itself, a marker of inequality.

The scenarios presented in this chapter demonstrate the urgency of tackling violence and instability sufficiently early in the implementation of the new development agenda, so that a foundation can be built for accelerated reductions of poverty in the 2020s. They also show, however, how hard it will be to improve institutions at the rate needed to reach thresholds envisaged for the new development goals.

Notes

1. The methodology used by the OECD to create the fragile states monitoring list has evolved over time. From 2005-06, the OECD fragile states list was assembled by identifying states in the bottom two quintiles of the World Bank's Country Policy and Institutional Assessment (CPIA) ranking as fragile. The 2007 list took a similar approach but included non-ranked states, as well as several states that clustered just above the fourth quintile cut off. From 2008-10, the list was compiled using the bottom two CPIA quintiles, as well as data from the Brookings Index of State Weakness in the Developing World (2008) and the Carleton University's Country Indicators for Foreign Policy index (2007).
2. Robustness of these indicators reflects substantial and sustained international investments in data, notably via the Demographic and Health Surveys (DHS) Program. See *www.dhsprogram.com* and the UNICEF Multiple Indicator Cluster Surveys at *www.unicef.org/statistics/index_24302.html*.
3. Algeria, Azerbaijan, Belarus, Cuba, Swaziland and Viet Nam are vulnerable in the institutions cluster, although they have never appeared on a fragile states list. Likewise, China, India, Mozambique, Panama, Tanzania and Zambia are vulnerable in the justice cluster. Fiji, Swaziland, Turkmenistan and the Bolivarian Republic of Venezuela appear in both clusters.

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States of Fragility 2015
Meeting Post-2015 Ambitions

Chapter 3

Taking stock of financing to address fragility

This chapter considers where and how aid is spent and assesses global trends in supporting fragile states and economies. It discusses the following questions:

Question 4: *What sources of development finance are available to fragile countries?*

Question 5: *How is aid allocated in fragile states and to reducing fragility?*

Question 6: *Is security spending aligned to the security challenges, risks and vulnerabilities that contribute to fragility?*

Question 4: What sources of development finance are available to fragile countries?

Official development assistance (ODA) is critical to fragile countries and economies. It has increased over time, but flows are unevenly distributed among countries. Domestic revenues, while low, are growing. Other official flows (OOF) and private finance are less available to fragile states and economies. In the post-2015 era, a financing framework for fragile states will need to ensure that aid reaches those countries where it is needed most, and greater efforts will be needed to promote, wherever possible, finance beyond aid – such as non-concessional finance from the official sector and instruments with the potential to mobilise private-sector investment – as well as new measures to curb illicit financial flows.

In the post-2015 era, credible, accurate, timely and relevant statistics are needed for all available financing for development. Foreign direct investment (FDI) and remittance data are based on global statistics from the World Bank. The figures for ODA and OOF are based on official data provided by OECD-DAC members and 18 bilateral non-DAC providers of development co-operation, as well as OECD estimates of concessional finance for development (ODA-like flows) for another 9 providing countries.

Data on domestic revenues were only available for 15 of the 50 countries and economies on the fragile states list at the time of writing. Reporting on some other flows, such as philanthropic investment and commercial debt, still needs to be improved, especially in terms of quality, disaggregation and coverage.

In addition, historical data for the fragile states list are always based on the latest list so as to highlight trends in those states or economies. However, this means that they cannot, at the same time, account for changes in the list's country composition over time.

These data gaps create wide margins of error for accurately tracking available sources of finance. Annex B presents supplemental data for each country and economy on the fragile states list, and for the top aid and FDI providers.

Official development assistance fills a critical financing gap in many fragile situations

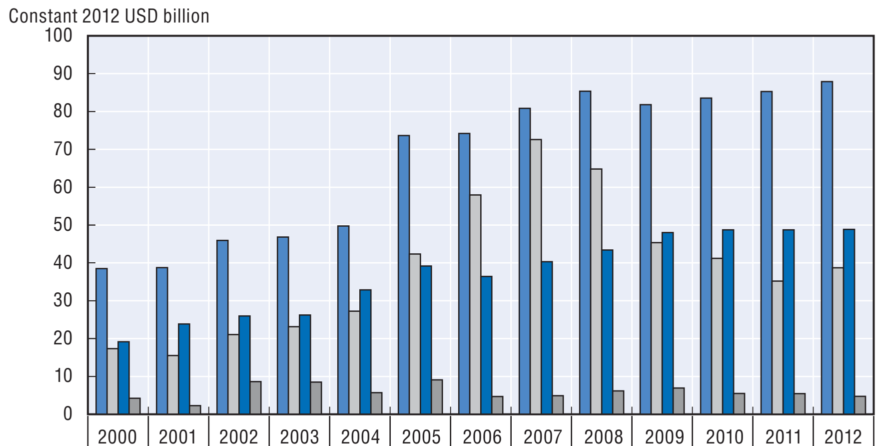
The available data do suggest that ODA, OOF, FDI and remittances are the largest sources of external finance for countries on the fragile states list. Figure 3.1 (Q.4) charts these major flows since 2000. Remittances have been consistently the largest source of external finance to countries on the fragile states list, followed by ODA, FDI and OOF.

Remittances have been consistently the largest source of external finance to countries on the fragile states list, followed by ODA, FDI and OOF.

However, these external sources of finance flow to different public and private beneficiaries and geographical locations for very different purposes.[1] In 2012, most FDI went to just six resource-rich countries for investment in the extractive industries. While

Figure 3.1. **(Q.4) External resource flows to fragile states, 2000-12**

Remittances, FDI, ODA and OOF to fragile states, constant 2012 USD billion



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Remittances	38.5	38.7	45.9	46.8	49.7	73.6	74.2	80.8	85.3	81.8	83.5	85.2	87.8
Foreign direct investment	17.3	15.5	21.0	23.1	27.2	42.3	57.9	72.6	64.8	45.3	41.2	35.2	38.7
Official development assistance (excl. debt relief)	19.2	23.8	25.9	26.2	32.8	39.2	36.4	40.3	43.4	48.0	48.7	48.7	48.8
Other official flows (OOF, excl. debt relief)	4.2	2.3	8.6	8.5	5.7	9.1	4.7	4.9	6.2	6.9	5.5	5.4	4.7

Sources: FDI and remittances data from World Bank (2014c), "Foreign direct investment, net inflows (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014d), "GDP figures (in current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014e), "Personal remittances, received (current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2014e), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*.

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50% of remittances go to just three countries with large diaspora populations, half of official flows beyond ODA (referred to as OOF – other official flows – and which are a crucial source of finance for lower middle-income countries) was allocated to just five countries. Table 3.1 (Q.4) summarises the main trends in 2012.

Table 3.1. **(Q.4) 50% of private finance and other official flows went to nine fragile countries in 2012**

Flow	Number of countries	Countries (listed in amount from largest to smallest)
Foreign direct investment	6	Nigeria, Iraq, Democratic Republic of the Congo, Egypt, Congo, Sudan
Other official flows (excluding debt relief)	5	Pakistan, Nigeria, Bangladesh, Ethiopia, Egypt
Remittances	3	Nigeria, Egypt, Bangladesh

Sources: FDI and remittances data from World Bank (2014c), "Foreign direct investment, net inflows (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014d), "GDP figures (in current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014e), "Personal remittances, received (current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2014e), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*.

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For many states, ODA fills a critical gap in development financing. Sixteen of the top 20 most aid-dependent countries and economies in the world have been on the fragile states list. Tuvalu, Liberia and the Marshall Islands top the list of aid-dependent countries in 2012. Somalia does not have official gross national income (GNI) figures, but using a 2012 UN estimate of Somalia's GNI (UN, 2014a), aid dependency is likely to be over 50% of GNI. If correct, Somalia would be the most aid-dependent country.

Table 3.2. **(Q.4) The 20 most aid-dependent countries and economies, 2012**

Rank	Country	ODA/GNI ratio (%)	Reported government revenue/ GNI ratio (%)
1	**Tuvalu***	42.25	
2	**Liberia**	36.10	27.23
3	**Marshall Islands***	35.52	
4	**Solomon Islands***	33.98	
5	**Micronesia***	33.51	
6	**Afghanistan**	32.63	9.84
7	**Malawi**	28.42	
8	**Kiribati***	25.03	45.06
9	**Burundi**	21.19	
10	*Sao Tome and Principe**	18.65	15.48
11	Samoa*	18.63	0.03
12	**West Bank and Gaza Strip***	18.36	
13	**South Sudan***	16.42	
14	Tonga*	16.12	
15	**Haiti**	16.01	
16	*Gambia*	15.65	
17	Mozambique	14.62	23.87
18	Cabo Verde*	14.22	21.21
19	*Vanuatu**	13.58	
20	**Niger**	13.54	

* Denotes middle-income country.

Notes: Countries and economies currently on the list of fragile states and economies are noted in bold; those formerly on the list in italics. ODA: official development assistance; GNI: gross national income.

Sources: World Bank (2014f), "GNI current USD", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GNP.MKTP.CD*; World Bank (2014b), "Revenue, excluding grants (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/GC.REV.XGRT.GD.ZS* (accessed 5 September 2014); Revenues, excluding grants as a percentage of GDP converted to USD using World Bank (2014d), "GDP figures (in current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*.

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Fragile countries often rely on a narrow base of government revenue sources, such as non-renewable natural resources and customs revenues. The citizen tax revenue base is often low in the poorest and most fragile situations (OECD, 2014b). Domestic revenues in countries and economies on the fragile states list are growing, but from a lower base. Table 3.3 (Q.4) charts the recent rise of government revenues. Since 2008, fragile countries and economies report that their revenue data have experienced an annual growth rate of 5.57% compared to an average annual reduction of 1.31% in all other developing countries, according to data from the *World Bank World Development Indicators*.

ODA can play an important role in helping to build countries' capacities to generate domestic revenues and to reduce aid dependency in the long term. Investment in this area, however, does not appear to be on the rise. Aid allocated to public financial management in fragile situations dropped to USD 3.4 billion in 2012 from USD 3.6 billion in 2011.

Table 3.3. **(Q.4) Fragile states and economies generate lower domestic revenue than other developing countries**

Average domestic revenue, % of GDP and annual growth rates, 2008-12

Average revenue	2008	2009	2010	2011	2012	Average 2008-12	Average annual growth rate, 2008-12 (%)
Countries on the fragile states list	16.75	15.21	17.65	17.30	20.32	**17.45**	**5.57**
Other developing countries	26.46	24.10	23.59	24.50	24.97	**24.72**	**-1.31**

Source: World Bank (2014b), "Revenue, excluding grants (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/GC.REV.XGRT.GD.ZS* (accessed 5 September 2014), revenues, excluding grants as a percentage of GDP converted to USD using World Bank (2014d), "GDP figures (in current USD)", *World Development Indicators*, (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*.

Reducing aid dependency will require international commitments to invest in national capacities for domestic revenue generation and national commitments to quantified improvements in resource mobilisation.

ODA to fragile situations is on the rise, but there are huge imbalances in ODA distribution

Aid for fragile states and economies continued to grow despite the 2008 financial crisis. Per capita ODA to countries on the fragile states list has almost doubled since 2000 to an average of USD 36 per capita in 2012 compared to less than USD 10 per capita in all other developing countries. Since 2007, the majority of ODA (53%) has been allocated to states and economies that are currently on the fragile states list.

Since 2007, the majority of ODA (53%) has been allocated to fragile states and economies.

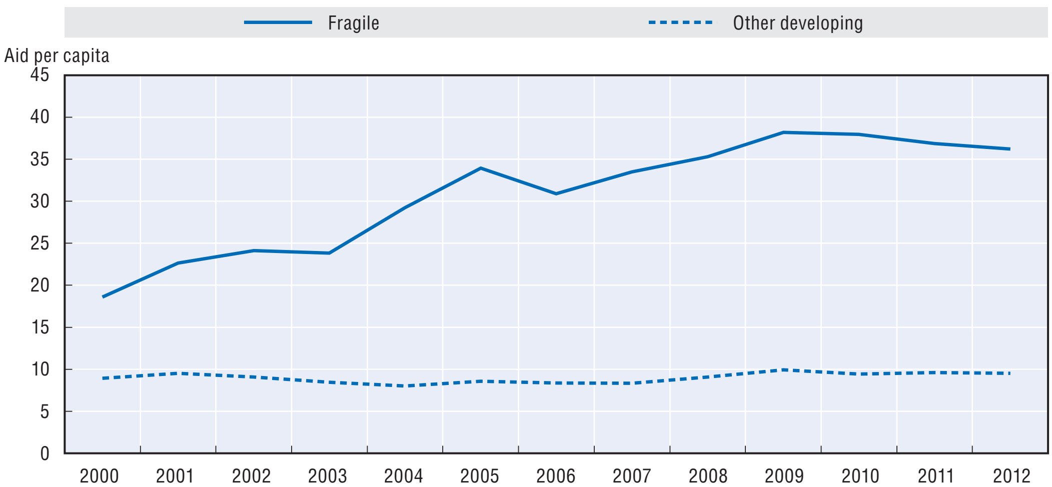
This trend reflects an international commitment to providing ODA to fragile situations where poverty is increasingly concentrated. Country programmable aid (CPA) to fragile states peaked in 2013. It is projected to exceed CPA to all other developing countries by 2017. Figures 3.2 (Q.4) and 3.3 (Q.4) show how OECD member countries appear to have made a choice over the past decade to increasingly allocate ODA to countries on the fragile states list.

However, these positive global aggregate trends mask imbalances in the distribution of ODA across countries on the fragile states list. When the OECD conducted research on countries that receive insufficient aid, it found that no donor agency adjusts ODA allocations to take into account other agencies' allocation decisions (Ericsson and Steensen, 2014). This causes imbalances in country and per capita aid allocations, and the persistence of aid orphans.

Aid orphans. To define possible aid orphans, or "potentially under-aided countries", as they are called in OECD reports, the OECD draws on four established normative frameworks for apportioning aid across countries and assessing whether they receive adequate ODA. The models used were: equal aid per capita; the UNDP allocation model called TRAC-1; a poverty-efficient aid allocation model developed by Collier and Dollar in 2000; and the performance-based allocation models used by the International Development Association (IDA) of the World Bank, in IDA 15. The OECD's methodology was proposed only as an initial step for analysis and made no preference between needs-based and performance-based models in assessing whether countries are likely to be underfunded.[2]

Figure 3.2. **(Q.4) People in fragile contexts receive more aid per capita than others, 2000-12**

Average ODA (excluding debt relief) per capita to fragile and other developing countries, constant 2012 USD

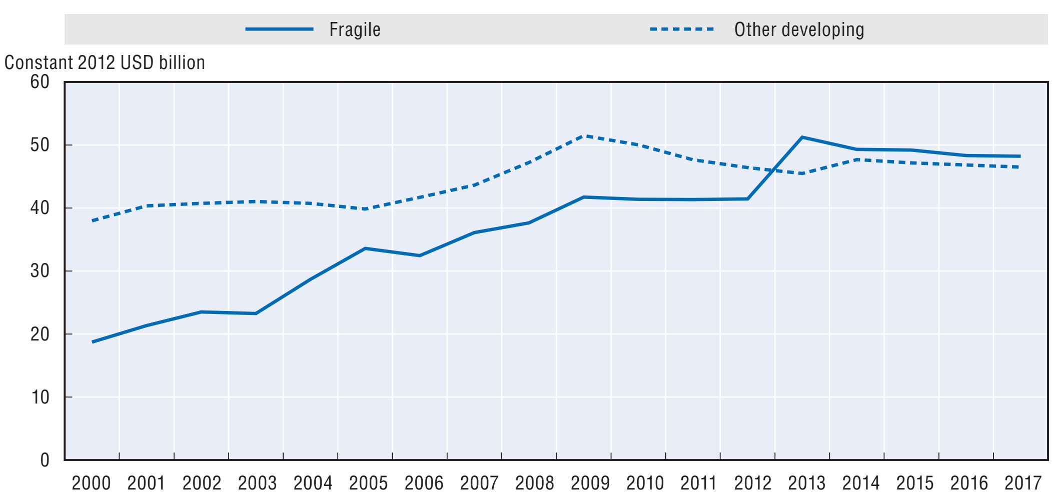


Sources: OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; World Bank (2014g), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL*.

StatLink http://dx.doi.org/10.1787/888933185086

Figure 3.3. **(Q.4) Fragile states receive more country programmable aid**

Trends in country programmable aid, 2000-17



Source: OECD (2014f), "Detailed aid statistics: Country programmable aid (CPA)", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00585-en*.

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Of 11 aid orphans identified by the OECD (OECD, 2014b), 10 have been on the fragile states list:

- Three fragile countries – Guinea, Madagascar and Nepal – have been aid orphans every year since 2006.
- Two fragile countries – Gambia and Togo – have been aid orphans for six out of the last seven years.

- Sierra Leone has been an aid orphan since 2011. Through the sum of donors' disparate decisions, Sierra Leone was unintentionally penalised for its strong performance in tackling violent conflict.
- Two of the countries most heavily affected by the 2014 Ebola outbreak, Guinea and Sierra Leone, are aid orphans. In 2012, Guinea, Liberia and Sierra Leone collectively received USD 79 million in total ODA assistance for healthcare systems, of which USD 9 million was allocated to infectious disease control. It is likely that a heavier investment in building health systems might have reduced the scale and mitigated the eventual human and financial cost of the outbreak.

Table 3.4. **(Q.4) Aid orphans since 2006**

Countries identified as receiving insufficient aid for 2006-12 ranked by number of years as an aid orphan

	2006	2007	2008	2009	2010	2011	2012	Years as an aid orphan	Currently fragile?
Guinea	X	X	X	X	X	X	X	7	Yes
Madagascar	X	X	X	X	X	X	X	7	Yes
Nepal	X	X	X	X	X	X	X	7	Yes
Gambia	X	X	X		X	X	X	6	No (2007-11)
Togo	X	X		X	X	X	X	6	Yes
Niger			X	X	X	X	X	5	Yes
Malawi		X		X	X	X		4	Yes
Bangladesh				X	X	X		3	Yes
Lesotho	X		X	X				3	No
Chad	X	X						2	Yes
Sierra Leone						X	X	2	Yes

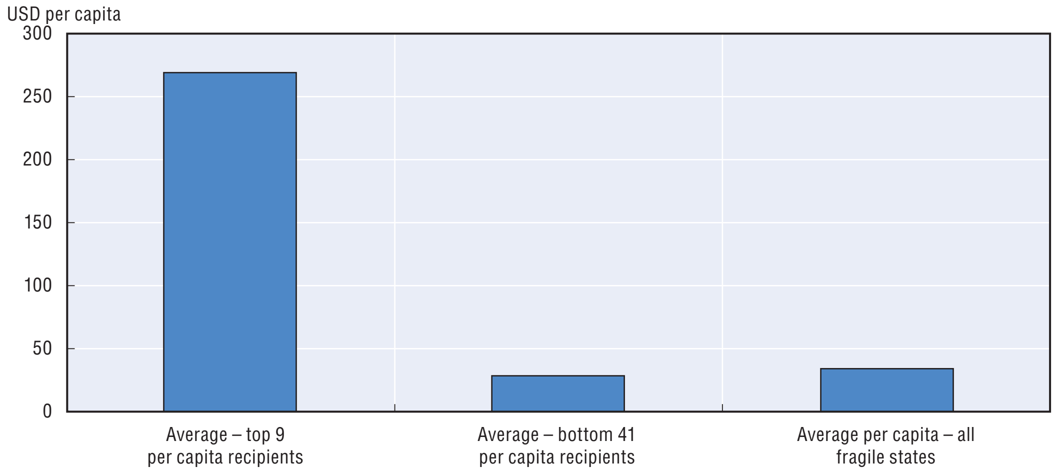
Source: Ericsson, F. and S. Steensen (2014), "Where do we stand on the aid orphans?", *OECD-DAC Development Brief*, OECD, Paris, available at: *www.oecd.org/dac/aid-architecture/Aid%20Orphans%20Development%20Brief.pdf*.

Geopolitical imbalances in ODA allocations. Between 2003 and 2012, 22% of all ODA to countries on the fragile states list was allocated to Afghanistan and Iraq, concurrent with international military efforts. When ODA to Afghanistan and Iraq is removed from total per capita ODA flows to the fragile states list, per capita investments in countries on the fragile states list was 18% lower between 2003 and 2012. However, it remained higher than ODA to other developing countries.

Per capita ODA is also distributed unevenly across countries. In 2012, per capita ODA to Tuvalu, the Marshall Islands and the Federated States of Micronesia exceeded USD 1 000, compared to an average of USD 29 per capita to the bottom 41 of 50 recipients (Figure 3.4 [Q.4]). In 2012, the nine top recipients of total ODA flows received over 50% of all ODA disbursed to countries and economies on the fragile states list: Afghanistan, Bangladesh, Democratic Republic of the Congo, Egypt, Ethiopia, Kenya, Nigeria, Pakistan, and the West Bank and Gaza Strip.[3] These countries received an average of more than USD 250 per capita. Average ODA per capita is, however, higher to least developed countries (LDCs), at USD 45 per capita (Table 3.5 [Q.4]).

Figure 3.4. **(Q.4) Per capita ODA is distributed unevenly across fragile environments**

ODA (excluding debt relief) per capita: Top 9 vs. bottom 41 fragile states and economies, 2012



Sources: Authors' calculations using data from OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*, and population figures from World Bank (2014g), "Population total", *World Development Indicators* (database), *http://data.worldbank.org/indicator/SP.POP.TOTL.*

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Table 3.5. **(Q.4) Fragile least developed countries receive more aid than middle-income fragile countries**

ODA (excluding debt relief) to fragile states by income group, 2012

	Fragile least developed countries	Lower and upper middle-income fragile countries	Other developing countries
ODA (excluding debt relief) per capita	45	28	10
ODA (excluding debt relief) absolute flows	31.2 billion	13.9 billion	41.6 billion

Note: ODA: official development assistance.

Sources: Data for ODA (excluding debt) using OECD-DAC income groupings; OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en.* Population data from World Bank (2014g), "Population total", *World Development Indicators* (database), *http://data.worldbank.org/indicator/SP.POP.TOTL.*

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Non-traditional actors are providing new sources of development finance

Many states affected by fragility can expect to see a growth in aid investment from non-traditional actors. Trends in new aid reflect humanitarian and geopolitical considerations in these actors' neighbourhoods, as well as broader global policy ambitions for international development (Saferworld, 2013). This growth in new development partnerships and sources of finance offers fragile countries the opportunity to attract new support for achieving development goals. The People's Republic of China, Turkey and the United Arab Emirates offer important examples of investment trends of non-traditional providers of development co-operation:

- **China.** According to the second Foreign Policy White Paper (2014) issued by the Chinese government, more than half of China's development co-operation from 2010 to 2012 was allocated to Africa (51.8%), which is also home to the majority of countries on the fragile states list. China tends to invest the majority (61% in 2009) of its concessional loans in economic infrastructure (Development Initiatives, 2013). This trend is reflected in the larger "megadeals" China has signed in recent years: concessional loans in exchange for preferential oil right bidding (Nigeria), loans for oil exploration (Mauritania), and loans to energy and transport infrastructure (Cameroon, Ethiopia, Madagascar, Sudan and Zimbabwe). China also provides non-concessional loans. Estimates placed China's non-concessional outflows to sub-Saharan Africa at USD 5-6 billion in 2007 (Callan et al., 2013), and the amount is likely to have grown in the years since.

- **Turkey.** After the United States, the United Kingdom, Japan, Germany and France, Turkey was the sixth largest bilateral provider of ODA to the fragile states list in 2012. Turkey also gave the most aid to fragile states and economies as a percentage of its GNI (0.25%), ahead of Luxembourg (0.20%), Norway (0.19%), Denmark (0.18%) and Sweden (0.18%). In 2012, Turkey's aid went primarily to the Syrian Arab Republic (USD 1 billion), Egypt (USD 503 million) and Afghanistan (USD 152 million).
- The **United Arab Emirates** (UAE) was the 15th top provider of aid to fragile states in 2012. In 2013, it became the most generous ODA partner in the world (measured as a percentage of GNI). This was largely due to "exceptional" flows of assistance that the UAE reported (OECD, 2014a) were needed to "address financial and infrastructure needs in Egypt".

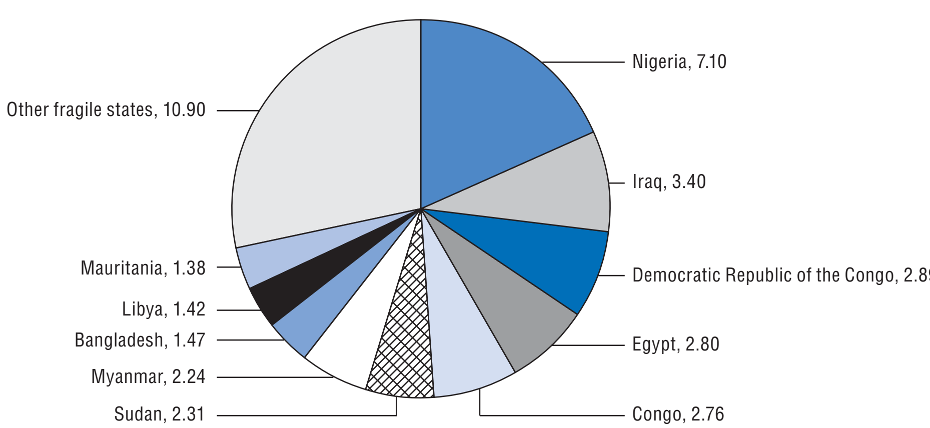
Foreign direct investment and other private financial flows are negligible in most fragile situations

FDI and other private financial flows have declined across developing countries since the 2008 financial crisis. In 2012, only 6% (USD 38.7 billion) of total global FDI to developing countries went to countries on the fragile states list. This was an average investment of USD 30 per capita compared to an average of USD 143 per capita to other developing countries.

Resource-rich countries on the fragile states list attract the majority of FDI, with 72% concentrated in ten countries in 2012. Nigeria tops the list, receiving USD 7.1 billion in FDI. Iraq, the Democratic Republic of the Congo, Egypt and the Republic of the Congo come in second, third, fourth and fifth respectively. The list of top recipients strongly suggests that most FDI is directed to the oil sector, followed by mining of other non-renewable natural resources (Ghassan et al., 2014; OECD, 2008).[4] Figure 3.5 (Q.4) charts the top recipients of FDI.

Figure 3.5. **(Q.4) Top 10 fragile recipients of foreign direct investment in 2012**

USD billion



Sources: World Bank (2014c), "Foreign direct investment, net inflows (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014d), "GDP figures (in current USD)", *World Development Indicators*, available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*.

StatLink http://dx.doi.org/10.1787/888933185143

The top 10 OECD member countries directing FDI to fragile countries and situations invested a total of USD 60.6 billion between 2008 and 2012, or an average of USD 12.6 billion annually. The United States was the largest source of investors, followed by the United Kingdom and France. Data on the BRICS (Brazil, Russian Federation, India, China, South Africa) are incomplete, but China is likely to be the largest of the BRICS investors. The International Monetary Fund (IMF) has estimated that China's FDI in sub-Saharan Africa alone reached USD 16 billion in 2011 (Drummond and Xue Liu, 2013). South Africa was the largest recipient of Chinese FDI, followed by Sudan and Nigeria (UNCTAD, 2013). Overall, the BRICS' share in sub-Saharan Africa's FDI is estimated to have reached 25% in 2010 (ibid.).

Most other low-income fragile economies receive negligible FDI because they can be seen as high-risk environments by investors. They can also lack capacity to negotiate complex infrastructure and extractive industry deals, and to design major "bankable projects". Question 8 of this report returns to the opportunities for scaling up public finances to leverage private investment.

Remittances are the largest aggregate flow, but they are concentrated in a small number of countries

Remittances have been the largest aggregate financial flow to fragile situations since 2000. In 2012, they amounted to an average of USD 83 per capita across the fragile states list, far exceeding ODA of USD 36 per capita and FDI at USD 30 per capita.

Remittances, as noted by Frankel (2011), are seen as important to developing countries because they are countercyclical. They generally increase during crises and economic downturns, which helps to buffer the impact of economic shocks. However, the impact of remittances on development in fragile situations is unclear. They accrue only to individuals and not to a country or community as a whole, although they are likely to be spent locally and have secondary effects on the local economy.

Remittance flows are also concentrated in a subset of middle-income contexts on the list of fragile states and economies with large diaspora populations. Bosnia and Herzegovina, Kosovo, and the West Bank and Gaza Strip all received in excess of USD 475 per capita in 2012. Least developed fragile countries receive far lower per capita remittance flows: for instance, in 2012, fragile sub-Saharan African countries received an average of USD 47 per capita in remittances.

The value of remittance flows is affected by transaction costs imposed on money transfers. The UN Open Working Group (OWG) proposed a post-2015 target "to reduce by 2030 to less than 3% the transaction cost of migrant remittances and to eliminate remittance corridors with costs higher than 5%". There are opportunities for governments in fragile situations to achieve the proposed post-2015 target by reforming banking regulations, improving poor people's access to banking systems and other facilities such as mobile phone banking, and by agreeing on regional payments systems for cross-border remittances (World Bank, 2014a). It is difficult to identify new opportunities for all fragile countries to expand remittances in the post-2015 era because there is limited international political will to also consider international migration policies.

Illicit financial flows undercut all investments

It is not possible to accurately quantify the revenue losses caused by illicit activity. By definition, illicit flows are not reported, and criminal actors go to great lengths to hide the sources and extent of their revenue. However, fragile states lose domestic revenue from illicit financial flows through the theft of assets, money laundering, foreign bribery, embezzlement of public funds and other forms of corruption and fraud (OECD, 2014c). These losses erode foreign exchange reserves, reduce tax revenues, deter foreign investors and impede economic development. While illicit flows affect all countries, they are most difficult to address in fragile situations where corruption is often a problem, the flows themselves are used to finance illicit activity within countries' borders, and local institutions have limited monitoring and enforcement capacity (OECD, 2014b).

The OWG's draft post-2015 framework commitment to curb illicit financial flows implies serious policy changes in wealthy as well as fragile countries (UN, 2014b). OECD economies are the ultimate repositories of the majority of illicit financial flows, and there is much that the OECD must do to help fragile states curb these flows (ibid.)

In the post-2015 era, a new global partnership for tackling illicit financial flows could involve quantifiable international targets for:

- Enforcing the OECD standards against money laundering set by the Financial Action Task Force.
- More consistently investigating and sanctioning overseas bribery payments, and offering better protection for whistle-blowers.
- Improving asset recovery by establishing legal frameworks and dedicated personnel.
- Dedicating ODA and investigators and pursuing joint investigations to help fragile countries to stem the outflow of illicit finances and funding for illicit activity within their borders.
- Addressing the incentives driving illicit flows. A great deal of illicit finance activity – from narcotics smuggling to human trafficking – is spurred by regulatory choices in wealthy countries. Making headway may require assessing how to reform global regulations to close down criminal profit from arbitrage opportunities, as noted in Gilman et al. (2011).

New approach to development finance

The Intergovernmental Committee of Experts on Sustainable Development Financing, mandated by the UN Conference on Sustainable Development (Rio+20), emphasised the continuing crucial role of ODA in supporting poverty reduction and basic social needs in the post-2015 era. The OECD is currently looking into several ways to mobilise more ODA for countries most in need. Over 2014 it discussed various targets, including a 50% target for net ODA for the countries most in need. Most recently it has called for increases in ODA to countries most in need including in LDCs and fragile and conflict-affected states (OECD, 2014g). In addition to this effort, it will also be crucial for the international community to live up to the UN target of allocating 0.15-0.20% of GNI in ODA to LDCs.

Increased ODA alone will not solve the challenges of all fragile situations. In the post-2015 era, new measures will be needed to boost the diversity of resources available for development in fragile states and to more effectively track them, including:

- **Measures to address imbalances in ODA allocations** and ensure that no country is underfunded.
- **Agreed quantifiable targets for generating finances beyond aid.** These can include donor and national commitments to increasing domestic revenues, commitments to scale up the use of aid instruments that leverage private finance, reducing transaction

costs for remittances, scaling up non-concessional finance for more middle-income countries, and a new global partnership to curb illicit financial flows.

- **Agreed global system of credible, accurate, timely and relevant statistics for all available sources of development finance** – not just from traditional donors, but non-traditional providers and private actors too.

Question 5: How is aid allocated in fragile states and to reducing fragility?

Over the last 15 years most ODA to all developing countries, including fragile states, has been directed to reducing poverty and meeting basic social needs. In the post-2015 era, development partners can direct more ODA to tackling the causes of fragility by aligning aid to national peacebuilding and statebuilding priorities, and to goals and targets that aim to build peaceful and inclusive societies and resilience. Monitoring aid to the New Deal's Peacebuilding and Statebuilding Goals (PSGs) can help to advance alignment of aid to national priorities in many contexts. Monitoring financial flows to countries that appear in the post-2015 clusters of fragility will also help to shed light on gaps in support to the most vulnerable contexts. Agreeing on financing needs and norms for tracking spending on global public goods will also be pivotal to coherent international action to reduce fragility. The OECD DAC is currently increasing efforts to upgrade and modernise its statistical systems and tools in order to properly monitor the financing framework underpinning the post-2015 agenda.

Most aid to countries on the fragile states list is allocated to addressing poverty and basic needs

The MDGs have had powerful impacts on aid flows: the majority of ODA to fragile states has been dedicated to sectors linked to the MDGs such as social services, economic infrastructure and services, health, population and education. Humanitarian assistance accounts for a much greater proportion of ODA in fragile states (17% versus 2% to non-fragile countries), as do actions relating to debt relief (9% versus close to 0% in non-fragile developing countries).

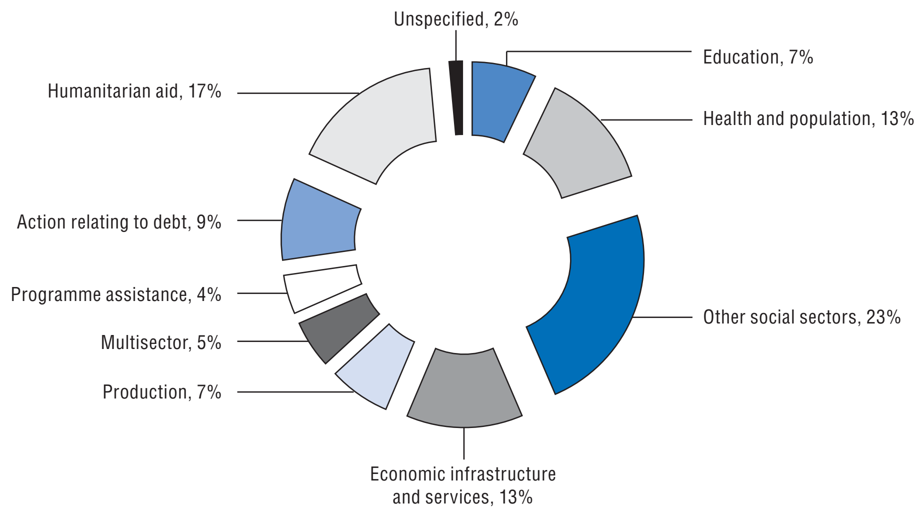
OECD donors tend to invest less in economic infrastructure and services across all fragile countries (13% versus 27% in other developing countries; see Figure 3.6 [Q.5]). As noted in Question 4, countries outside the DAC are beginning to fill this investment gap in infrastructure through a variety of concessional and non-concessional financing modalities (UNSG, 2014).

Aid for building gender equality is higher in fragile states and economies than in other developing countries

UN Security Council Resolution 1325, adopted in 2000, and its six follow-up resolutions have contributed to a rise in ODA to gender equality in fragile states. Over the course of the MDGs it more than tripled, to USD 8 billion in 2012 from USD 2.4 billion in 2002. This is in line with the increase in aid to gender equality in all developing countries, but the rate of growth in fragile states is even faster: 17% on average per year in fragile states compared to 12% for all developing countries since 2007. In 2011-12, 44% of DAC members' aid to fragile states targeted gender equality either as a primary or secondary objective, compared with 32% in all other developing countries. The priority placed on gender equality in fragile contexts perhaps reflects that many fragile states are among the countries furthest behind in achieving the gender-related targets of the MDGs.

Figure 3.6. **(Q.5) Official development assistance to fragile states and economies by sector, 2011-12**

% of total



Sources: OECD (2014g), "Aid at a glance, by recipient", *www.oecd.org/dac/stats/aid-at-a-glance.htm#recipients*; OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*.

StatLink http://dx.doi.org/10.1787/888933185151

However, a closer look at the focus of this aid shows that there is room for improvement. Gender equality is not yet integrated in all areas of aid activities in fragile states. Nor is gender equality usually the primary object of DAC members' aid activities in fragile states, according to the available data. Most ODA to gender equality in fragile situations goes to education and health; financing gaps remain in the peace and security sector and in economic and productive sectors. Integrating a gender perspective in the peace and security sector does produce better peacebuilding and statebuilding outcomes. It makes state institutions more inclusive, enhances state legitimacy, fosters justice and security, and helps to unlock women's potential to contribute to economic recovery after conflict. Donors could also further invest in dedicated gender equality programmes.

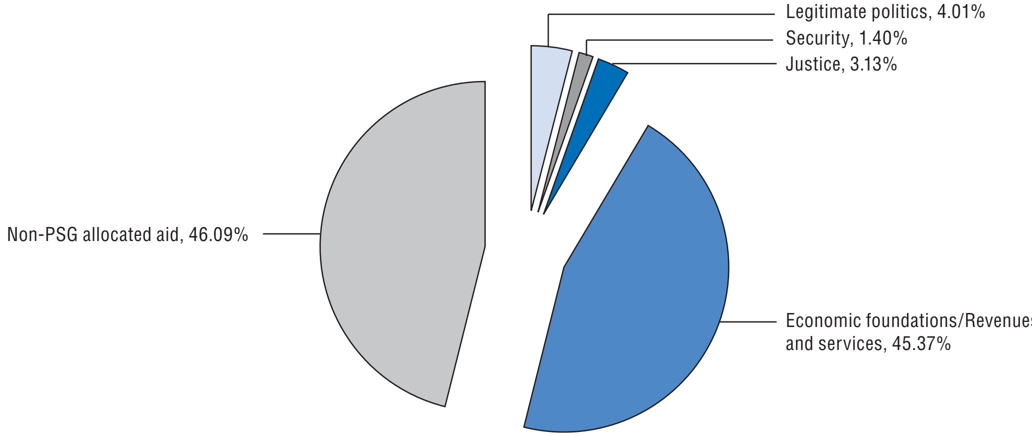
Official development assistance support for political reform, security and justice is low

The MDG era lacked a focal goal on peacebuilding and statebuilding, and progress on these challenges lagged. Following endorsement of the New Deal in Busan in 2011, a framework emerged to strengthen national institutions. The five Peacebuilding and Statebuilding Goals are intended to guide national priorities and the use of aid among the g7+ group of fragile and conflict-affected countries and development partners.

Adjusting aid budgets to new frameworks and targets is never a quick process. As such, data from 2012 donor investments in fragile states show little evidence of shifting towards the PSGs. While there is no agreed framework for tracking aid to the PSGs, a working model for tracking assistance (Table 3.6 [Q.5]) found that 54% of ODA to countries and economies on the fragile states list, or USD 33 billion, was allocated to the five PSG areas. There is very low investment in legitimate politics (4%), security (2%) and justice (3%). In other developing countries, investment patterns look very similar. The only major difference is that investment is higher in economic foundations and revenue and services (57% in other developing countries versus 45% in fragile situations).

Figure 3.7. **(Q.5) Support to legitimate politics, justice and security in fragile states is low**

ODA allocations to the Peacebuilding and Statebuilding Goals in 50 fragile states, 2012



Sources: OECD Creditor Reporting System. See Annex A for methodology; OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*.

StatLink http://dx.doi.org/10.1787/888933185162

Country-level experience in the g7+ countries has mirrored this aggregate trend. Sierra Leone's Agenda for Prosperity fully incorporates the PSGs and indicators and sets out a framework for the government and development partners to hold each other mutually accountable for delivery and outcomes against the PSGs (Box 3.1 [Q.5]).

Box 3.1. **(Q.5) Aligning aid to Sierra Leone's Agenda for Prosperity**

Sierra Leone's Agenda for Prosperity, its third-generation poverty reduction strategy, is recognised as the country's "one vision, one plan". The agenda incorporates the findings of Sierra Leone's fragility assessment, the PSGs, indicators to track progress and the PSG Mutual Accountability Framework (MAF). It builds on a trend of aid increasingly being reflected on budget. Sierra Leone's fragility assessment was conducted over a five-day period with representatives of local government, parliament and civil society. The assessment identified key drivers of fragility and PSG priorities.

The multi-donor budget support (MDBS) development partners' strategies have been aligned to the agenda through consultations with the government. The MAF sets the terms of the partnership, and the MAF dashboard uses indicators to track progress. Indicators are drawn from aid effectiveness standards agreed on in Busan, country-level PSG indicators and other pre-existing indicators. It is hoped the system will highlight actions that need to be taken in a timely manner and ultimately bring more aid reporting on budget.

Monitoring of mutual commitments. The MDBS partners provide around 70% of all ODA to Sierra Leone. The MAF dashboard makes provision for joint risk assessments in the future. The Sierra Leone government and the MDBS partners have also focused on boosting the transparency of extractive industries and the raising and use of domestic government revenues. Donor transparency needs to be improved through more transparent and timely donor reporting. Donors have committed to do so annually.

Source: Government of Sierra Leone; IDPS (2014), *New Deal Monitoring Report 2014*, prepared for the Fifth International Dialogue Working Group meeting on New Deal implementation, 17 June, Freetown, Sierra Leone, International Dialogue on Peacebuilding and Statebuilding, *www.pbsbdialogue.org/newsandevents/specialevents/RD%201%20New%20Deal%20Monitoring%20Report%202014%20FINAL.pdf*.

However, limited progress has been made to improve transparency and timeliness of donor reporting on alignment of their aid to Sierra Leone's goals. In Liberia, the government has piloted a Mutual Accountability Framework, the "New Deal dashboard", meant to assess the relevance of aid to national PSG priorities. It showed that while aid may support the right goal areas, it does not always support specific national priorities within the goals. Such situations may stem from donors' desire to retain some discretion over flows while ensuring that aid still addresses national needs. As discussed in Question 8, adapting on-budget aid modalities to fragile states may help reduce, although not entirely eliminate, these differences.

Aid is not aligned to supporting all of the most vulnerable countries in the post-2015 era

A broad range of risks and vulnerabilities to fragility will need to be addressed at the universal level post-2015, including and beyond the long-term fragile group of g7+ countries. Chapter 2 proposed a working model for identifying countries most at risk across five dimensions of fragility. This method is proposed not as a new aid allocation model, but could serve as a means of monitoring the alignment of development finance and vulnerabilities in the post-2015 era. Figure 3.8 (Q.5) charts ODA per capita investments to all of the 50 most vulnerable states and economies in each of the 5 clusters. Key findings of an analysis of aid to these countries across the five dimensions of fragility include:

- **Violence dimension.** While a significant burden of violence is concentrated in lower middle-income countries, these contexts receive relatively limited per capita aid flows.
- **Justice for all dimension.** LDCs with the weakest justice systems receive similar levels of ODA as lower middle- and middle-income countries in the same cluster.
- **Institutions dimension.** Aid flows to authoritarian and semi-authoritarian countries – as defined by the Economist Intelligence Unit's Index of Democracy – are relatively low. The Democratic People's Republic of Korea receives virtually no ODA. For LDCs and lower middle-income countries undergoing reforms and with high levels of institutional weakness, ODA financing is correspondingly greater. This points to some alignment among institutional capacity, need and financing.
- **Economic foundations dimension.** Low-income countries with the most vulnerable economic foundations systematically receive lower aid flows than middle-income countries in the same cluster.
- **Capacity to adapt to shocks and natural disasters dimension.** Vulnerability to shocks and disasters is greatest among a cluster of LDCs and low middle-income countries, but these vulnerable states do not receive ODA commensurate with the task of managing their risk exposure to shocks and disasters.

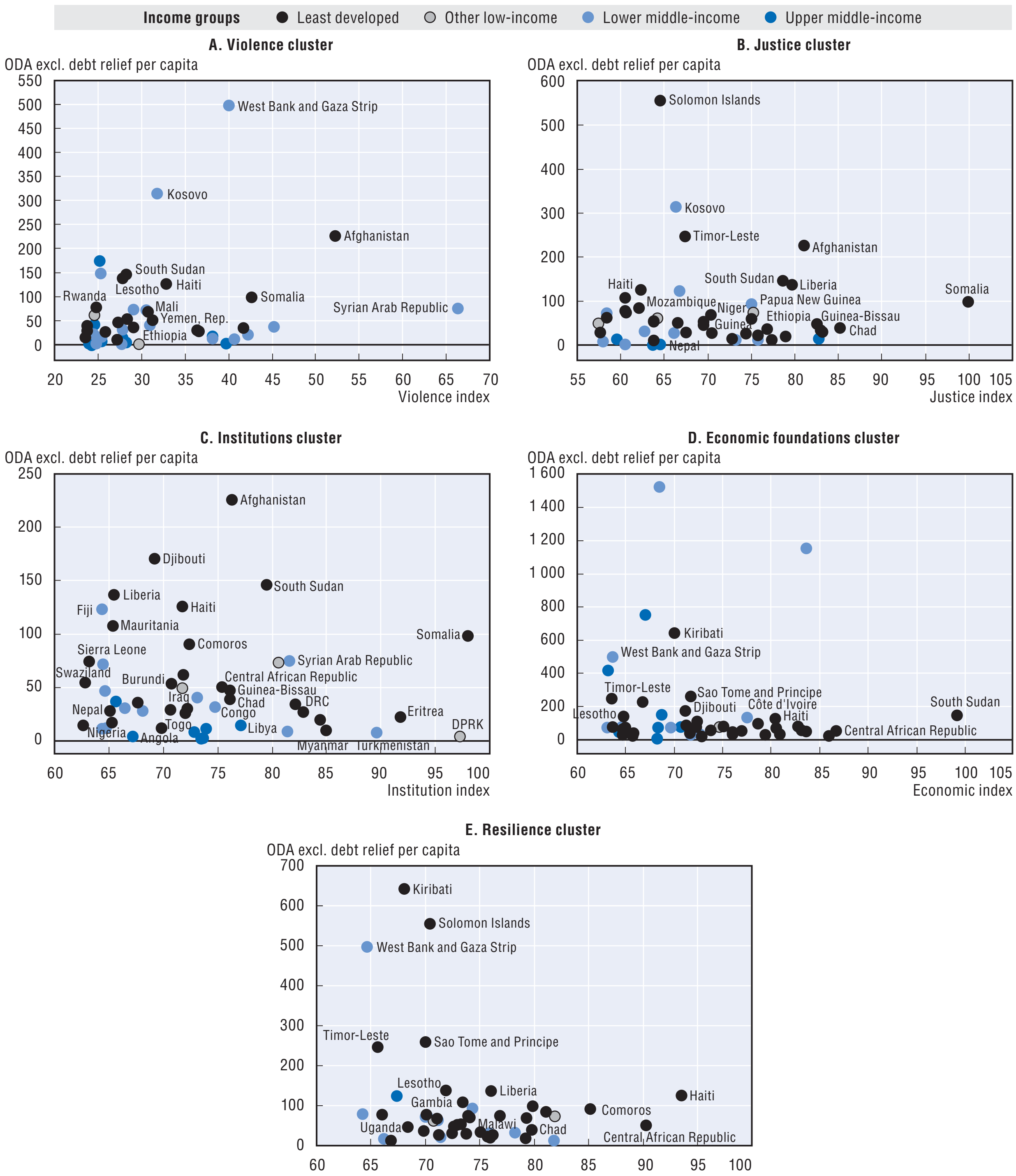
This is not to suggest that aid is the answer to all of these challenges. Rather, it is an attempt to understand what role aid may play among the resources a country has at its disposal to counter the risks and threats it faces.

It will be critical to agree on targets and track spending on global public goods

Many global public "bads" adversely affect fragile countries. Insecurity, violent extremism, transnational organised crime and illicit financial flows, international economic shocks, climate change and pandemic threats all have heavy impacts on states

Figure 3.8. **(Q.5) Is aid aligned to fragility risks and vulnerabilities in the post-2015 era?**

ODA, excluding debt relief, per capita in 2012 USD to the 50 most vulnerable states and economies in each of the post-2015 fragility clusters, 2012



Sources: OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; population figures from World Bank (2014g), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL*; authors' calculations using OECD 2015 Five Dimensions of Fragility (Figure 2.3 [Q.2]).

StatLink *http://dx.doi.org/10.1787/888933185170*

Box 3.2. (Q.5) Supporting middle-income countries to address fragility in the post-2015 era

Violence in middle-income countries: The case of Central America and the Caribbean

El Salvador, Guyana, Trinidad and Tobago, Guatemala, Honduras and Panama all emerge among the 50 most vulnerable countries in the violence cluster because they have been negatively affected by the impact of transnational organised crime (the latter three face multiple fragility challenges). However, they have never appeared on a fragile states list and ODA has declined to these countries as a group since 2000, reflecting their graduation to lower middle-income status. Scaling up development finance beyond ODA as discussed in Question 4, including through the use of instruments that have a mobilisation effect on private investment, and collectively addressing the external drivers of violence could make an important contribution to helping this group of countries to reduce violence levels. These could also minimise the impact of violence on sustainable development. This is one example of how a broader approach to assessing fragility risks and resources can improve the international community's responsiveness to achieving the Sustainable Development Goals across all countries in the post-2015 era.

that lack institutional capacity to buffer and address these threats. Identifying new ways to jointly monitor and address the external drivers of fragility needs to move higher up the international agenda so as to prevent emergencies.

Traditionally, initiatives designed to sustain global public goods have received significantly lower amounts of financing compared to country-allocated development assistance programmes. There is no agreed inventory of public goods. Nor is there a framework for monitoring spending. Based on existing data, it appears that peacekeeping has been one of the largest areas of investment. The Center for Global Development estimates that in 2009, nearly three-quarters of funds for global public goods went to UN peacekeeping missions (Birdsall and Leo, 2011). Question 6 discusses global security spending in more detail.

There is no agreed estimate of the total volume of global financing needed to achieve the ambitions of the post-2015 development agenda. Needs are likely to surpass current levels of ODA. Under the UN Framework Convention on Climate Change alone, developed countries have committed to mobilising USD 100 billion per year through 2020 to address the needs of developing countries (OECD, 2014b).

Monitoring official development assistance in the post-2015 era

In the post-2015 era, monitoring aid and other financial flows to the most vulnerable countries could draw on the model for tracking the five dimensions of fragility proposed in this volume. Such a system can ensure that the countries that have experienced the most prolonged fragility continue to receive sufficient levels of ODA. It can also help to fine-tune public resource allocations made available for countries that are vulnerable to one or more types of risk. Universal tracking of this nature can make an important contribution to strengthening international efforts to reduce and prevent fragility.

Agreeing on targets and norms for tracking spending on global public goods will also be crucial, because tackling fragility will require sustained investment.

In the g7+ countries that have experienced prolonged fragility, donors need to more systematically and rapidly align aid to nationally owned and led priorities under the PSGs. At the global level, donor accountability for financing New Deal implementation could be improved by making data available on trends in aligning aid to the PSGs and meeting agreed country-level indicators.

More granular reporting codes in the PSG area (including through possible new or updated sector codes) could help monitor flows in support of the post-2015 goals and targets, the PSGs and similar future policy frameworks. The methodology used in this report is an approximation at best. Table 3.6 (Q.5) presents examples of current Creditor Reporting System (CRS) proxy codes for the PSGs used in this report to estimate ODA support in this chapter.

Table 3.6. **(Q.5) Monitoring aid to the Peacebuilding and Statebuilding Goals**

Sector proxy codes selected from the OECD-DAC Creditor Reporting System

Peacebuilding and Statebuilding Goal (PSG)	Example of sector proxy code
Legitimate politics	Civilian peacebuilding, conflict prevention and resolution (OECD CRS Code: 15220)
Security	Security system management and reform (OECD CRS Code: 15210)
Justice	Legal and judicial development (OECD CRS Code: 15130)
Economic foundations	Industry (OECD CRS Code: 321)
Revenue and services	Public finance management (OECD CRS Code: 15111)
Non-PSG allocated aid	Aid that is not allocated to the PSGs includes aid allocated to multiple sectors, debt forgiveness, humanitarian aid, administrative costs, and commodity aid including food aid.

The OECD DAC recognises the challenges in reporting ODA-financed activities in the area of security, justice and the rule of law. As the reporting guidelines for security-related activities are restricted to a few elements, certain programmes in this area might not appear in official statistics or be carried out at all by donors because they are not eligible as ODA. In this regard, the OECD DAC has undertaken a two-track approach. On the one hand, it strives to modernise its ODA rules by clarifying and updating its Statistical Reporting Directives to possibly take account of changing realities. On the other hand, it is currently discussing the introduction of a new framework with the working title "total official support for sustainable development" (TOSSD). This would complement the ODA framework by taking a broader view on resource flows to partner countries and help to take account of existing programmes that are not currently visible within the ODA framework. The proposed framework would include flows that are supporting any of the three dimensions of sustainable development – economic, social and environmental – as defined by the United Nations and thus contribute to monitoring resources that will finance the upcoming SDG framework.

Discussions are currently underway concerning how the two frameworks, ODA and TOSSD, will be confined in the area of security and justice. The interrelation of security, development and poverty reduction is evolving, and it can be expected that these developments will influence the clarification and updating process of the ODA guidelines. At the same time, the DAC will ensure that the main objective of ODA remains the promotion of the economic development and welfare of developing countries. In general, the scope of the TOSSD will be to map all activities promoting and enabling sustainable development, including contributions to global public goods where these are deemed relevant for development and aligned with developing countries' priorities. Activities to promote peaceful and accountable states, which are channelled through mechanisms or are meant for purposes not included in the Statistical Reporting Directives as ODA-eligible could also be eligible. Therefore in the area of security and justice TOSSD could include activities that indirectly benefit the development of partner countries, for example by supporting political stability or the accountability of security forces. As most expenditure for multilateral UN peacekeeping missions is excluded from being ODA-eligible, part of this area of spending could also be covered by the TOSSD. Such an approach would recognise the contribution that multilateral peacekeeping missions are making in laying the foundations on which sustainable development can build.

Question 6: Is security spending aligned to the security challenges, risks and vulnerabilities that contribute to fragility?

Bilateral support for security sector institutions is not measured systematically, and there are many gaps in data on investments in peace and security. This makes it difficult to gauge global investment in security as a global public good versus security spending that is in the national interest. According to existing (and imprecise) data, it is possible to know that ODA spending on security is low. Global spending on peacekeeping has been more systematically tracked. Investment in peacekeeping operations has been significant. However, UN operations now face a surge in demand and growing threats, and are likely to need more support. The majority of peacekeeping missions are located in fragile and conflict-affected states. Resourcing for peacekeeping is thus likely to have particularly significant implications for security and stability in fragile contexts. New norms need to be agreed on for tracking spending on peace and security as a global public good if data are to improve.

Spending on peace and security as a global public good is not monitored

There is no agreed international system for measuring peace and security spending, with the important exception of UN peacekeeping. As a result, it is difficult to collate and categorise data on security spending as it contributes to the global public good – or cuts against it:

- There is no system for monitoring security and military co-operation expenditures that contribute to global security as opposed to security spending to achieve exclusively national interests.
- Under ODA eligibility rules, only some security expenditures in developing countries are registered: police training; civilian oversight; civil society engagement; non-military expenditures on security sector reform (SSR); disarmament, demobilisation and reintegration (DDR) and removal of landmines; and civilian conflict resolution and peacebuilding. International co-operation for counter-terrorism, military equipment and services, and counter proliferation are not ODA-eligible and are therefore not measured systematically (OECD, 2014b).
- Spending on diplomacy, international justice and countering organised crime is not coherently monitored as a global public good (ibid.). Data are available for spending on global governance institutions such as the UN's mediation efforts (special political missions), the UN Office of Drugs and Crime (UNODC), Interpol, the International Criminal Court and special tribunals.

- There is no system or agreed methodology for monitoring spending on conflict prevention, and the balance of investment in prevention versus the costs of managing conflict and crisis.

Official development assistance spending on security is low, and there are gaps in data on other forms of security co-operation

Investment in national security sectors has, under some conditions, the potential to help states to prevent and recover from conflict. A more coherent system of measuring this security spending as a global public good could support more effective international conflict prevention and response efforts.

However, an accurate picture of bilateral security assistance is elusive because international military and counter-terrorism co-operation spending is not systematically reported. Moreover, many countries do not report – or indeed, actively disguise – substantial international flows of military assistance, in particular weapons transfers and training.

Based on data publicly reported as ODA, aid to the security sector comprises a small amount of all sector-allocated aid. In 2012, aid allocated to building the security sector in fragile states totalled USD 858 million. Security (1.4%) and related justice support (3.1%) represent a single-digit percentage of all sector-allocated aid in fragile situations for the year. When spending in Afghanistan and Iraq is removed, the security investment in other fragile situations is even lower: less than 1% of total allocated aid.

Table 3.7. **(Q.6) ODA security financing to fragile countries, 2012**

	Total – All fragile countries		Fragile countries excluding Afghanistan and Iraq	
ODA sector allocation	Amount distributed (USD million)	% of all sector-allocated ODA	Amount distributed (USD million)	% of all sector-allocated ODA
Security	858	1.40	528	0.99
Justice	1 912	3.13	836	1.57

Source: OECD (2014d), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*.

StatLink http://dx.doi.org/10.1787/888933185180

This is likely to be an under-investment in countries that are aiming to develop their security and rule of law as a matter of priority. However, these figures should be interpreted with great caution given their likely bias. While increased global transparency regarding security transfers would be beneficial, agreement on new norms for reporting is likely to be challenging. This is because of the need for precision and rigour with countries potentially wary of the risks of re-packaging international "militarised" and national security spending as ODA for countries' national development.

In addition to the lack of transparency regarding security outlays, little is known about the impact of security sector spending on state capacity. A limited number of micro-level studies exist on the impact of some major providers' spending, but little is known about the qualities of successful security sector investment (McNerney et al., 2014).

As the recent difficulties with intensively financed security forces in Iraq demonstrate, high spending alone will not necessarily translate into sustainable capacity to enforce order. Security sector reform is typically politically and operationally challenging. And while a growing body of research has shed light on the effectiveness of DDR programmes (Colletta et al., 1996), security sector reform remains comparatively poorly understood.[5] More knowledge is needed to guide the design and implementation of aid programmes to reform and strengthen security institutions.

When the OECD reviewed international support for security and justice development programming in fragile situations, it called for significant changes in the ways that programmes are designed and implemented (OECD, 2014b). In particular, four key criteria may improve the likelihood of success (OECD, forthcoming):

- Programmes must be grounded in the political context and have national political support.
- Programmes need to last six to ten years and be delivered on the basis of flexible support for national partners.
- Long-term results can be agreed on over time and do not need to be agreed on in advance.
- Programmes need to be adjustable and flexible over time.

Around USD 8.5 billion a year is spent on UN peacekeeping, but pressures are growing

Peacekeeping is the single largest multilateral investment in global security. Total peacekeeping funding for the fiscal year 2014/15 now stands at USD 8.46 billion, a 7% increase from the budget of USD 7 billion for UN peacekeeping operations approved by the UN General Assembly for that period. This figure is 12% higher than was actually spent in 2013/14. This session of the 5th Committee of the UN General Assembly in its 69th session also agreed full-year funding for the United Nations African Union Mission in Darfur (UNAMID), the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA) and the United Nations Mission in South Sudan (UNMISS).

UN peacekeeping is a versatile tool for deterring and stabilising inter-state and intra-state conflict, civil wars and humanitarian crises. Peacekeeping and mediation have contributed to the decline in total armed conflict since the end of the Cold War (Fortna, 2008; Doyle and Sambanis, 2006). Not all missions succeed, but their impact has been pivotal globally (Jones et al., 2009).

Most of the current UN peacekeeping missions operate in countries and economies on the fragile states list. The only exceptions are the United Nations Mission for the Referendum in Western Sahara (MINURSO) in Algeria and Morocco in the contested territory of Western Sahara, the United Nations Peacekeeping Force in Cyprus (UNFICYP) operating in Cyprus[6, 7] and the United Nations Interim Force in Lebanon (UNIFIL) operating in Lebanon. The lion's share of peacekeeping expenditures in 2012 went to some of the countries and situations that have experienced prolonged fragility. In order of size, the largest budgets went to Darfur, the Democratic Republic of the Congo, South Sudan, Haiti, Côte d'Ivoire, Lebanon and Liberia.

As the nature of conflict and fragility evolves, UN peacekeeping missions are being deployed to ever more complex circumstances in areas of fragility. The missions face growing demands and threats from violent extremism and cross-border drivers of fragility. In 2012-13, the UN faced a renewed surge of demand for stabilisation operations in Mali (MINUSMA) and the Central African Republic (MINUSCA), and for a monitoring mission to the Syrian Arab Republic.

The UN's special political missions provide support for political mediation and peacebuilding, and demand is also growing in these areas. In 2011-12, the great majority of funds for special political missions went to Afghanistan (UNAMA) and Iraq (UNAMI), followed by Burundi (BINUCA), Guinea-Bissau (UNIOGBIS), Sierra Leone (UNIPSL) and Libya (UNSMIL). In 2013, the UN Security Council authorised a new mission to Somalia (UNSOM). Regional special political missions in West Africa (UNOWA) and Central Africa (UNOCA) are also mandated to provide mediation and co-ordination support at regional levels. The annual budget for special political missions is approximately USD 590 million.

The top 20 financial contributors to the UN peacekeeping budget are members of the OECD and the G20. The United States is the largest funder, followed by Japan and the United Kingdom. Many others have committed troops and resources to peacekeeping, and the African Union has stepped up its military role in countries such as Mali and Somalia. Nine of the top 20 troop contributors to UN peacekeeping operations – Bangladesh, Egypt, Ethiopia, Nepal, Niger, Nigeria, Pakistan, Rwanda and Togo – are on the fragile states list. Peacekeeping missions provide these states with revenue and may also offer opportunities to build military institutional capacity, although the long-term impact of troop contributions on military readiness has yet not been clearly established.

To keep pace with global demand, the UN is likely to need more assets. It is also likely to need support for adaptation to new fragility threats and needs including countering violent extremism, strengthening crisis prevention and response capacities, and enhancing the contributions made by its special political missions (Gowan, 2014).

Monitoring security spending in the future

Countries could agree on a system for collating data and monitoring spending on security as a global public good. In doing so, countries could consider whether to:

- Agree on norms and responsible global institutions for reporting and collating relevant peace and security spending.
- Develop indicators of spending impact on peace and security.
- Consider a methodology for monitoring funds for conflict prevention, and assessing the balance of funds for conflict prevention versus intervention in existing conflicts.

Key recommendations

This chapter assessed the sources of finance available to countries and economies on the fragile states list and how they are spent. It also highlighted gaps in international norms and standards for tracking spending on global public goods, the PSGs and, eventually, the post-2015 goals and targets. The key measures to ensure that development finance is aligned to reducing fragility in the post-2015 era can include those to:

- **Address imbalances in ODA allocations** and ensure that no country is underfunded – such as through aid or non-concessional funds for middle-income countries, addressing the issue of aid orphans.
- **Agree on quantifiable targets for generating finances beyond aid** – agreeing on international and national commitments to raising domestic revenues; scaling up non-concessional finance (including in the OOF category) for middle-income countries; incentivising the use of instruments mobilising private finance; reducing transaction costs from remittances; and developing a new global partnership to curb illicit financial flows.

- **Adapt the OECD-DAC statistical framework to the changing development finance landscape** – including from non-traditional providers of development finance and private actors.
- **Improve data on development finance alignment by introducing updated aid sector codes to the OECD-DAC's Creditor Reporting System** that encompass the post-2015 goals and targets as well as the PSGs.
- **Agree on norms and responsible global institutions for reporting and collating relevant spending on global public goods and spending on peace, security and conflict prevention** including and beyond ODA.

Notes

1. According to the OECD definition, "other official flows (OOF) are non-concessional flows between governments that do not count as ODA, either because they are not primarily aimed at development or because they have a [g]rant [e]lement of less than 25%".
2. For an explanation of the methodology used in the OECD analysis, see OECD (2013: 8-9).
3. This estimate is based on the International Futures model (*http://pardee.du.edu*). Up-to-date poverty data for all ten countries are not available.
4. The majority of FDI in Iraq and Nigeria goes to the oil industry, while in the Democratic Republic of the Congo, the majority is directed to the mining industry. See Corporate Nigeria (2010/11).
5. One notable exception is described in Samii (2013).
6. Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
7. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

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States of Fragility 2015
Meeting Post-2015 Ambitions

Chapter 4

Moving from fragility to resilience post-2015

This chapter addresses the following questions:

Question 7: *What opportunities exist to address fragility?*

Question 8: *What should international support look like in the future in order to be "fit for purpose"?*

Question 7: What opportunities exist to address fragility?

The post-2015 negotiations have created an unprecedented and inclusive debate about the opportunities for all countries to achieve development. This political will can be translated into more significant action for building peaceful and inclusive societies in the post-2015 era. Untapped opportunities for development exist in many fragile countries and economies. Seizing these opportunities will require ownership on the national and local level, and international support for those plans and for tackling the external drivers of fragility. Innovation will be needed to deliver multi-sectoral responses for reducing violence, to build trust in government and to improve the quality and not just the quantity of public services. Galvanised global action can be underpinned by an emerging revolution in data and knowledge about effective project and programme designs.

International political will has created more sustained attention to the challenge of fragility

The Millennium Development Goals (MDGs) injected urgency into global development efforts, catalysing innovation in development assistance from finance through to more inclusive and innovative partnerships that have attempted to accelerate progress towards the goals. There has been increased national ownership of development policies and greater mutual accountability for delivering results.[1]

The post-2015 process has built on this momentum. It has spurred an unprecedented debate about how to overcome obstacles to sustainable development through a process that has been much more inclusive than that which developed the MDGs. During 2015, this debate will gain further profile, as leaders prepare for the summit that will finalise the new agenda and public awareness grows of the ambition of the new goals. There will also be opportunities for all development partners to:

- explore how goals and targets can be implemented and financed, and the mechanisms that are needed to create accountability for them
- reassess their strategies in order to make them "fit for purpose" in the new development environment
- begin to develop a new generation of multi-stakeholder partnerships that can support implementation in countries and economies with the greatest need.

As discussed in Chapter 2, fragility poses considerable risks to the delivery of the new goals. But the reinvigorated debate around the setting of goals presents valuable opportunities to focus more attention on building functional and resilient institutions and preventing violent conflict. States in fragile situations have advantages that can be harnessed to support growth and poverty reduction, but this requires tackling the political obstacles that make development difficult. Country-led processes to reduce fragility require greater support, and more active efforts are needed to respond to stresses and shocks that threaten to reverse development.

Greater international political will is also needed to create an external environment that reduces stresses on vulnerable states and limits the transmission of fragility and violence across borders. Implementation of the new development agenda offers an opportunity for existing initiatives to address the global and regional dimensions of fragility to be taken to a new level (OECD, 2014a).

Fragile states have untapped opportunities for development

In the coming decades, several features of long-term fragile countries – relatively young and rapidly urbanising populations, new opportunities in global markets and large natural resource endowments – will present opportunities to accelerate development as well as potential sources of risk and instability.

Most fragile states have young populations and this creates both opportunities and threats. Especially in Africa, fragile states will continue to enjoy increased economic potential as a "youth bulge" increases the size of the workforce. This can generate a demographic dividend if young people find productive employment and enjoy opportunities to save. Its achievement relies on policies to expand labour markets and create institutions that support growth, and on investment in education and training of sufficient quality to generate skills that are competitive in regional and global markets. Labour market stagnation, however, will mean more unemployed or underemployed young people – a factor linked with social and political instability, and with the potential to intensify a demographic disaster that could have broader regional consequences (Ortiz and Cummins, 2012).

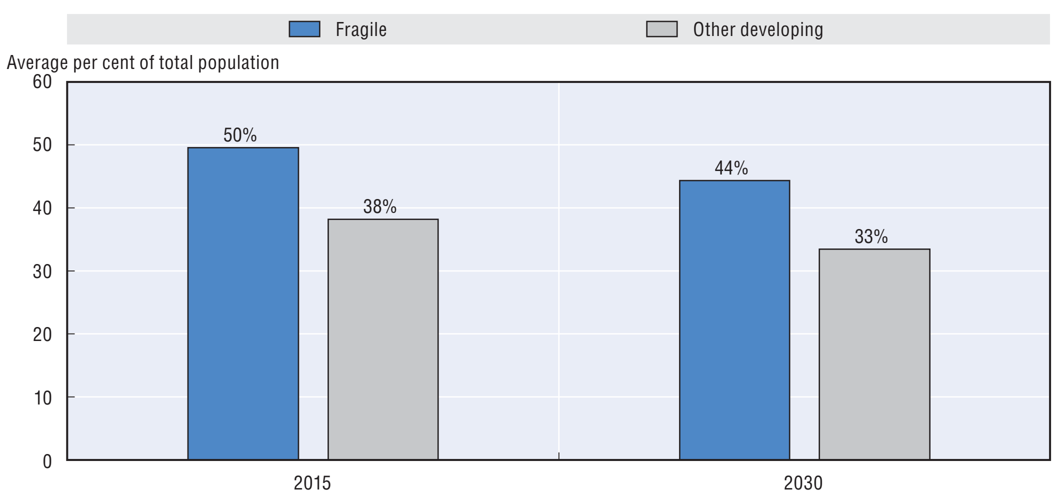
Urbanisation will continue to reshape many states. According to UN population projections, the 50 countries on the fragile states and economies list will account for nearly 30% of the global increase in urban population between 2015 and 2030, with an additional 303 million people living in towns and cities. On average, fragile states will experience more than a 60% increase in urban population – more than double the global average (WHO, 2014). Urbanisation is a potentially powerful driver of economic growth. Moreover, as a 2013 World Bank/IMF study suggested, density can improve economies of scale around service provision, opening up potential for virtuous circles of development. However, rapid urbanisation can overwhelm capacity for planning and development, leading to gridlocked transport systems and spikes in insecurity. In sum, increasingly concentrated populations in fragile states will offer policy makers and aid actors an opportunity to rapidly improve conditions for large numbers of people – and a costly challenge if they fail to do so.

New market opportunities are opening up for countries with growing labour forces. For the last two decades, the People's Republic of China has been the manufacturing hub for the global economy, but rising labour costs are increasingly pushing manufacturing to new markets; over the next decade, China's rise will open new economic opportunities. Even the poorest countries are increasingly connected to global markets. Whether they can compete will depend on their success in improving regulation, countering corruption and strengthening infrastructure. Realism is, of course, necessary. Today's fragile states will not become the manufacturers of tomorrow without substantial improvement, not least in basic security and infrastructure. However, increasingly extended global supply chains will offer potential niches and there is evidence that countries can emerge from fragility to compete effectively in global markets. For example, Cambodia – fragile from 2007 to 2009 – is increasingly drawing in manufacturing across a range of industries, and in 2012 it received USD 1.4 billion in foreign direct investment (FDI). External investors, especially in the manufacturing sector or from the emerging powers, also bring new pressure to raise productivity and reduce costs for bringing products to global markets.[2]

For many countries, **natural resource wealth** has long posed a challenge to development. The relationships between natural resource rents and institutions are complex. Resource rents can erode the quality and accountability of institutions by reducing state dependence on taxes for revenue; weak institutions can also allow for rent seeking and misuse of scarce public resources. These interlocking relationships pose challenges to reformers. Nevertheless, there is an increasing body of knowledge on how to improve the management of natural resources across all links of the value chain, in particular by mobilising broader constellations of stakeholders and by supporting the development of high-quality "pockets" of governance capacity around resource management (Barma et al., 2012; Leonard, 2010). Likewise, there is increasing normative pressure for responsible sourcing and supply chain management. Sustained attention to helping fragile states harness resource rents could be transformative.

Through all these factors, the boundary between opportunity and risk is a narrow one. Young urban populations, connected to global markets, can rapidly boost growth and create a virtuous cycle where domestic resource mobilisation, increased political participation and more effective investment in human capital create the foundations for further development. States with limited capacity will need increased support if they are to respond both to these medium-term trends and to more immediate changes in the external environment – mitigating a fall in resource prices, for example, or a slowdown in an important export market requiring capacity for more resilient and adaptable development strategies.

Figure 4.1. **(Q.7) Youth population and fragility**[1]



1. Population under the age of 20.

Source: Authors' calculations using data from the UN Department of Economic and Social Affairs (DESA), Population Division Population Estimates and Projections Section (2012), "Population by age groups" dataset, Medium Fertility projections, in *World Population Prospects: The 2012 Revision*, available at: *http://esa.un.org/unpd/wpp/Excel-Data/population.htm*.

StatLink *http://dx.doi.org/10.1787/888933185191*

National ownership and international commitment are needed to seize these opportunities

As the post-2015 development agenda is finalised, the debate about how to implement it must continue and intensify, leading to a renewed commitment to building peaceful and inclusive societies as a foundation for ending poverty.

Fragile communities and countries are increasingly directing their processes of recovery by conducting their own assessments of the factors driving their fragility and using those assessments to establish consensus behind the direction for reform. At the national level, the New Deal pilot countries, in particular, have begun to set out an agenda for co-operation with the international system. Both community-based and nationally defined agendas will offer new ways for development partners and aid recipients to align interests, priorities and international assistance.

The African Union (2014) has united around a common position for the post-2015 agenda, identifying priorities that combine economic, growth and development objectives; environmental sustainability, natural resource management and disaster risk management; and a commitment to peace, security and the "good and inclusive governance" needed to address the root causes of conflict and instability. As the African countries move to operationalise the Sustainable Development Goals (SDGs), they will have opportunities to strengthen their own plans to address fragility and to increase resilience, based on the African Union's commitment to "adopt additional measures to fight corruption, promote good political and socio-economic governance, transparency and accountability, especially in the field of natural resources management" (ibid.). In all regions, the early years of the new development agenda will offer fresh opportunities to strengthen local and national consensus around development needs and priorities, and to drive policies and the global partnerships needed to underpin sustainable development.

Internationally, efforts to jointly address external drivers of fragility will be essential for containing illicit globalised flows of finance, narcotics, people and arms. Global policies on drugs, migration and finance flows provide criminal opportunities for arbitrage profit (Gilman et al., 2011). As noted in Kilcullen (2013), these globalised criminal opportunities offer violent actors the ability to "manipulate and mobile[s]e populations on the other side of the globe, and vice versa". Countries with weak institutions will be especially vulnerable to these global threats because state institutions lack the policing and regulatory capacity, and sometimes the political will, to curb criminal profits and networks and stem growth in local violence. In these contexts, non-state armed groups exploit the weakness of fragile states' institutions. In the Niger Delta, for example, profits from stolen oil financed the Movement for the Emancipation of the Niger Delta (MEND) (Asuni, 2009).

To mention but a few, important international initiatives already exist to: fight tax evasion (global standard on Automatic Exchange of Information); tackle tax avoidance (OECD/G20 Base Erosion and Profit Shifting project); curb illicit financial flows (the Financial Action Task Force); make natural resources concessions more transparent (the Extractive Industries Transparency Initiative); end the trade in conflict minerals (the Kimberley Process); improve responsibility of supply chains (OECD Due Diligence Guidance); reduce corruption of companies overseas (foreign corrupt practices acts); strengthen due diligence in conflict-prone environments (the UN Global Compact and *OECD Guidelines for Multinational Enterprises*); and counter the proliferation of small arms and light weapons (UN Programme of Action).

Implementation of the post-2015 agenda will offer an opportunity to build on and strengthen these initiatives with the aim of demonstrating measurable reductions in external stresses on vulnerable countries. In particular, urgent action is needed to return stolen assets to fragile states, and to stem illicit flows from fragile states and their use in funding criminal enterprise within countries' borders. For example, the proceeds of corruption alone, which are only a part of the stolen funds leaving developing countries each year, are estimated at USD 20-40 billion. Returns from OECD member countries are only around USD 60 million per year (OECD/The World Bank, 2014). All major economies, including those outside the OECD, will need to develop and implement a comprehensive strategy to dramatically reduce illicit flows. A successful outcome would see steady increases in finance available for implementing the SDGs in fragile states and a reduction in criminal profit opportunities in countries with weak institutions. Question 4 of this report proposes elements of a new global partnership to address illicit financial flows.

Finally, a knowledge revolution is underway that could underpin more effective strategies to reduce fragility. Since the agreement of the MDGs, there has been considerable progress in engagement with fragile states. As noted in Chandy (2011), "A supporting set of institutions has sprouted, built around the g7+ group of fragile states and the network of donors with whom they partner, resulting in more honest dialogue, the sharing of experience, and the agreement of shared objectives, norms and metrics of progres". Major investments in mapping the evidence base, identifying gaps and supporting evaluations – such as the International Initiative for Impact Evaluation (3ie) Evidence for Peace Initiative – are all underway.[3] While data standards remain problematic, important improvements have been made in availability, quality and openness, and donors and investors have increased their commitment to transparency.

Much more needs to be done, however. In a range of areas critical to escaping fragility – reducing sexual violence in conflict, designing political transitions and early-stage electoral processes, and building civil service capacity – evidence is lacking. The policy implications of new knowledge also need to be developed. Much remains to be learnt about how flows of funding and technical assistance interact with governance and livelihoods, and then to translate findings from research in ways that are relevant to policy makers. Yet it is important to bear in mind that development assistance is a relatively young field. We are at the cusp of releasing new knowledge that can transform development, with increasing attention given to quantitative impact evaluation (Vinayak and Duflo, 2011), and more focused and rigorous qualitative studies of the causal processes through which aid interventions work.

It will take time to assemble sufficient knowledge on how aid interventions work in disparate contexts, and policy makers will need to devote sustained attention and investment to evaluating portfolios of comparable projects. Yet these investments will begin to produce dividends as aid actors work to deliver on the post-2015 agenda, yielding better designed and more locally rooted projects. Taken together, a combination of stronger national ownership, more forceful international co-ordination and the fruits of a knowledge revolution have the potential to increase vulnerable countries' ability to benefit from the new development agenda.

Innovation is needed to address fragility

The post-2015 agenda should catalyse further innovation and experimentation that will accelerate progress in reducing fragility, especially if a peaceful and inclusive societies goal is backed up by well-constructed targets and indicators and by appropriate finance, partnerships and mechanisms for accountability.

As argued in Chapter 2, the new development agenda will increase understanding that fragility is a challenge – not just for the poorest countries but for all countries where high levels of violence and a lack of access to justice and to robust institutions point to in-country inequality.

In connection with a peaceful and inclusive societies goal:

- There is considerable potential to explore strategies that aim to reduce levels of all forms of violence suffered by a society, whether collective, interpersonal or self-directed (WHO, 2002). In addition to setting targets on violence prevention proposed for the post-2015 agenda, the World Health Assembly (2014) has mandated WHO to produce the world's first global action plan for ensuring health systems play a full role in preventing violence against women and children. This is intended to contribute to a comprehensive multi-sectoral response that would have normative, legal, institutional and technological dimensions.
- Innovation is needed in efforts to rebuild low levels of trust in government. This is a challenge for all governments, including those of OECD member countries, but is especially pressing in countries where conflict and political instability have eroded public confidence in the ability of state institutions to deliver (OECD, 2013a). Diffusion of information technologies has led to growing visibility of corruption and other forms of states' failure to discharge their responsibilities. Action is needed to explore how to make the public sector more reliable, responsive, open and fair, especially in contexts where government capacity is very low.
- Renewed investment is needed in the public servants who are expected to deliver more effective, accountable and inclusive institutions – in government itself; in the justice sector, where better policing is critical to tackling instability; or in the social sectors, where health and teaching personnel account for the majority of government expenditure. Reform is only possible with the support of better-qualified and more highly motivated public servants, an objective that is complicated by vested interests and political obstacles. If more peaceful and inclusive societies are to be developed, new ways must be found to build a relationship of trust between citizens and those whose job it is to serve them.

Question 8: What should international support look like in the future in order to be "fit for purpose"?

The post-2015 development agenda will be the most ambitious international development framework yet. As countries negotiate the "means of implementation" for the SDGs, this question reviews major aid and finance priorities for reducing fragility in the post-2015 period.

National governments can do more to engage all parts of government and society in peacebuilding and statebuilding processes. Greater international political commitment and risk tolerance are needed to align aid to nationally owned priorities. Aid instruments and modalities can be put to better use to build national, both state and non-state, ownership. These can also help to mobilise new sources of development finance and align incentives of governmental, private, civil society and external actors behind national visions. Sources of development finance will also need to be scaled up to meet global ambitions by 2030.

Many processes in 2015 will offer entry points to consider aid and measures beyond aid. The International Dialogue on Peacebuilding and Statebuilding (IDPS); international negotiations on the post-2015 development agenda; financing for development, climate and trade; the UN Secretary-General's Review of Peacekeeping; and the review of the UN peacebuilding architecture will all offer opportunities for the international community to consider priority reforms to global governance institutions. The international community can commit to a number of key actions to make international support "fit for purpose" in the post-2015 period. This chapter concludes with a potential roadmap for decisions in 2015 to address fragility.

Meeting universal development ambitions will be harder than ever

In many developing countries the easiest challenges have been addressed. Ensuring that development resources reach the poorest and most marginalised communities and households will be the priority. Question 2 of this report underlined that a core of poverty is likely to be increasingly concentrated in long-term fragile situations: 43% of the world's poorest people live in countries on the 2015 list of fragile states and economies. By 2030, this figure could rise to 62% in a best-case scenario. Addressing poverty in the post-2015 era will require urgent attention to building effective, accountable and inclusive institutions; mitigating shocks; and reducing and preventing conflict and violence.

To these ends, the international community will need to draw on a range of collective tools, including aid and extending beyond aid. These can include peacekeeping and peacebuilding, whole-of-government approaches for reducing fragility, a stronger focus on building global public goods, and engagement by civil society and the private sector. Aid actors must rise to the challenge by offering a broader menu of aid instruments and modalities that develop national capacities and help to align the incentives of national and international public and private actors towards reducing fragility.

Yet, fragile countries are the hardest environments in which to deliver aid. Governance can be weak, institutional capacity low and absorptive capacity for aid limited; geopolitical constraints and considerations loom large. Although donors place a heavy emphasis on co-ordination in fragile situations, in many contexts, they still pursue distinct agendas. As a result of these pressures, aid is often less than the sum of its parts – it is not always delivered in ways that align with national priorities or that sustainably build institutional capacity. This status quo perpetuates a "sovereignty gap" (Ghani and Lockhart, 2009). This means governments are seen by citizens to fail to deliver on basic priorities. Their revenues are low, as are public service pay and morale, while corruption can be high. The international community fails to support the development of functioning institutions, and compounds low morale by sidelining national institutions and political processes in favour of direct implementation. These challenges, at their root, are political. They reflect often misaligned interests of national (state and non-state) and international actors that are difficult to shift.

The New Deal framework was a landmark for fragile countries that had been poorly served by supply-driven aid approaches designed for other environments (Da Costa, 2014). The g7+ countries are now defining national priorities and plans. While it is too early to judge the impact of the New Deal, a review of partial implementation to date suggests that greater political commitment is still needed on all sides to build momentum and effect real change. So far, many national processes have been rushed and often driven by technical considerations and donor imperatives to allocate funds, rather than national and inclusive processes to define priorities (Hearn and Zimmerman, 2014).

Much more systematic change is needed across donor implementation practices (IDPS minimum standard for building national ownership [Hughes et al., 2014]). Donors must find ways to improve their flexibility, tolerance for risk and adaptation to each national context. With sufficient national and international political will, better alignment of aid to national priorities is possible. A recent OECD study offers insight into the ways that donor institutional development assistance practices can change for the better (see Question 6). Viable reforms are demand-driven and must be grounded in the local political context and correspond to realistic scope for change. The likelihood of success may improve if programmes have national political support and leadership; have longer (six to ten years) timelines; and build in flexibility in funding and implementation and multi-stakeholder accountability for achieving results.

With international political will, traditional aid modalities can better meet needs in fragile situations

Many existing aid modalities can better meet the needs of both donors and recipients in more equal partnerships towards common ends. In some contexts, donors have attempted to modify traditional aid instruments that are designed to build national systems and capacities – such as general and sector budget support and pooled funds – to the specific circumstances of fragile situations. These modalities are especially appropriate for building ownership, flexibility and mutual accountability, and have been most prevalent in situations where there is international political will to take fiduciary and political risks and national commitment to spend funds on agreed priorities. These modalities are also well suited to enabling national actors to pursue innovative and comprehensive multi-sectoral approaches to addressing fragility. Table 4.1 (Q.8) summarises existing aid modalities, their use of country systems, their time sensitivity to the needs in fragile situations and their tolerance for risk in fragile countries.

Table 4.1. **(Q.8) Traditional aid modalities adapted to fragile situations**

Instrument	Time sensitive	Risk tolerant	Use of country systems	Joint ODA and non-ODA eligible approaches such as security
Bilateral on-budget special facilities	Yes	Yes	Yes	
Bilateral conflict and stabilisation project support	Yes	Yes	No	Yes
General and sector budget support	No[1]	Yes	Yes	
Multilateral joint trust funds and pooled funds	Yes	Yes	Yes (parallel systems)	Yes (United Nations)
Multilateral project and programme grants	Yes	Yes	No	Yes (United Nations)
Hybrid facilities	No	Yes	Yes (parallel systems)	
Project support in traditional areas such as DDR, SSR, public works, civil service reforms, transitional bodies and elections, mediation, civil society participation	Yes	Yes	No	Yes (SSR)

Note: ODA: official development assistance; DDR: disarmament, demobilisation and reintegration; SSR: security sector reform.

1. With the exception of the EU's state building contracts.

The Somalia Special Finance Facility is an example of speedy and risk-tolerant support to meet the national immediate needs. This bilateral on-budget special facility reimburses the government for the most urgent recurring and project costs. Such facilities are especially appropriate to the immediate aftermath of conflict when government revenue, public financial management systems and civil services have collapsed. Additional safeguards can address fiduciary risks.

Box 4.1. **(Q.8) The Somalia Special Finance Facility**

The Somalia Special Finance Facility (SFF) was developed by the Norwegian government to provide urgent assistance to the newly formed federal government of Somalia. The facility reimburses the government in tranches for recurring costs and quick-impact projects upon verification of expenditures. The facility delivered early pay-offs in injecting urgent cash into the fledgling administration and in demonstrating that risk-tolerant funds could be managed in Somalia (Hearn and Zimmerman, 2014). The SFF is intended to lay the foundations for multilateral pooled funds, which can take longer to become operational. The facility was apportioned 70% to recurring costs and 30% to federal government quick-impact projects to support stability in insecure areas. The SFF laid the foundation for the World Bank Multi Partner Fund, a multi-donor fund which took over the payment of recurrent costs in July 2014.

General and sector budget support harmonises aid behind national priorities and builds country systems by spending resources through national budgets and institutions. These instruments have been adapted to fragile situations, especially those more advanced in the transition from conflict such as Liberia, Rwanda, Sierra Leone and Uganda. Non-traditional providers of development co-operation such as Turkey and the United Arab Emirates are increasingly providing budget support for a range of fragile countries. Channelling aid through country systems raises fiduciary risks, including leakage and corruption. To address these risks, partners have experimented with additional safeguards including independent audit checks and independent monitoring of financial flows to effectively mitigate these risks (Manuel et al., 2012). Communities can be actively engaged in monitoring resources and the quality of services. More recently, the European Union introduced state building contracts (SBCs) to deliver more rapid budget support to countries in times of crisis and upheaval. The SBCs have been initiated or planned in ten countries, including during the onset of crisis in Mali and during the upheavals of the Arab Spring (OECD, 2014e). They are agreed on for a two-year period to help countries reduce crises, and can be succeeded by other EU budget support instruments (Hauck et al., 2013).

Multilateral joint trust funds and pooled funds. World Bank Multi-Donor Trust Funds (MDTFs) and UN Multi-Partner Trust Funds (MPTFs) have been established in a wide range of fragile situations, either aligned to key sectors or to broader national policy priorities. Because they pool risk for donors and are managed by the multilateral system, these instruments have increased donor tolerance for the risks of using country systems in fragile situations (Manuel et al., 2012). Trust funds and pooled funds are also well suited to enabling collaboration between the public sector, private actors and civil society and experimentation in new approaches to reduce fragility.

Conflict and stabilisation funds can support official development assistance (ODA) and activities not eligible for ODA. This is advantageous when investing in early actions to lay the political, security and justice foundations for peace. However, they have tended not to use country systems, and their support for national and sub-national policy coherence and capacity has been questioned. For example, a major criticism of the Provincial Reconstruction Team (PRT) model in Afghanistan is that large volumes of stabilisation funds were delivered outside of government priorities and generated hundreds of millions of dollars of unsustainable and unused projects and leakage.[4]

Hybrid facilities combine multiple funding sources and funds under a single joint governance and oversight mechanism and national policy framework. The Somalia Development and Reconstruction Facility has been established with four "windows" of support tied to implementation of the Somali New Deal Compact. The advantage of the facility is that it offers a mechanism through which to increasingly align all support to government priorities under one oversight umbrella, although many donors and conflict and stabilisation funds are yet to be reflected within the framework.

Box 4.2. **(Q.8) The Somalia Development and Reconstruction Facility**

The Somalia Development and Reconstruction Facility (SDRF) is a centrepiece of the Somali New Deal Compact and is intended to serve as the primary mechanism by which the federal government of Somalia guides financial support for the compact. The financial governance committee of the SDRF is designed to improve transparency and integrity and to build donor confidence in government systems. The SDRF is composed of four financing windows.

- The Special Financing Facility (SFF) provides urgent support to the federal government of Somalia for recurring costs and quick-impact projects.
- The World Bank Multi-Donor Trust Funds (MDTF) will be on-budget funds and dedicated to the Peacebuilding and Statebuilding Goals (PSGs) for economic foundations and revenue and services. It will not accept earmarked funds from donors. The fund will finance government recurring costs and priority projects. An oversight committee for the fund will include regional and federal officials. In doing so, the fund can enable Somalis to negotiate political priorities.
- The UN Multi-Partner Trust Fund for Somalia (MPTF) is aligned to the PSGs. It will disburse funds through UN agencies, eligible non-governmental organisations (NGOs) and country systems. It brings UN programmes under the government umbrella, and is able to fund justice, security and political priorities.
- The African Development Bank Facility will fold the African Development Bank's programmes into the SDRF and will focus on enhancing jobs and livelihoods and building national institutions.

The SFF and the MDTF accept high levels of risk in order to support Somali political negotiations on the most urgent priorities within the New Deal Compact framework. However, the bulk of funds within the facility are dedicated to revenue, services and economic PSGs. The SDRF may be lacking a window to support joint decision making and implementation on the most urgent political and security tasks, and donors' security, conflict and stabilisation funds are not yet reflected within the SDRF framework. Discussions are ongoing about how best to leverage private-sector investment.

Source: Hearn, S. and T. Zimmerman (2014), *A New Deal for Somalia? The Somali Compact and its Implications for Peacebuilding*, Center on International Cooperation, New York University, New York, available at: *http://cic.nyu.edu/publications/new-deal-somalia-somali-compact-and-its-implications-peacebuilding*.

Multilateral funds for peacebuilding and statebuilding include the UN Peacebuilding Fund, the World Bank State and Peacebuilding Fund and the African Development Bank Fragility Facility. These are able to make disbursements across fragile situations. The funds aim to test innovative approaches and to catalyse longer term support to scale up effective initiatives based on regionally, nationally or locally owned fragility assessments and priorities. An advantage of these funds is that they can be targeted to innovative local, national and regional plans for reducing fragility.

Innovative aid instruments and partnerships are needed for fragile situations

More innovation and more investment to test new ideas are needed to meet the challenges of achieving results in fragile situations. Aid innovations could be more closely linked to rewarding growth in domestic revenue generation. New opportunities will arise as access to technology – and the energy sources it requires – expands. A growing number of Southern actors and non-traditional providers of development co-operation are now testing new approaches to demand-driven institution-building initiatives. Greater efforts can also be driven into funding regional capacities and joint innovations.

- "**Matching funds**" models can match ODA to transparent public financial management, growth in tax revenues and the use of remittance revenues. The advantage of these models is that they can support domestic revenue generation. Unless correctly calibrated, they also have the potential to penalise countries that are challenged to raise revenues quickly.
- **New technology and communications** are already facilitating direct cash transfers for social protection and salaries. These mechanisms do not require heavy state bureaucracies to be developed before individuals can access social protection support or pay from the state. They also reduce the potential for corruption.
- **South-South and triangular co-operation and non-traditional donor models** provide opportunities for actors from countries that have recently experienced transitions and poverty reduction to bring their empathy, political awareness, and relevant technical skills and experience to bear in fragile states (UNSG, 2011). Southern actors have demonstrated a high level of tolerance for risk and flexibility in supporting nationally defined priorities. This is because all support responds to specific demands rather than traditional donor aid frameworks. Southern actors are experimenting with new forms of development partnerships that draw on the national assets and experiences of countries. Using these tools, the BRICS, Gulf states and Turkey are increasingly active in fragile situations. The experiences and impact of these new approaches can offer valuable lessons, and significant opportunities exist to scale up South-South and triangular co-operation.
- **Building regional capacities to address fragility.** An array of regional and sub-regional institutions aims to reduce the transnational drivers of fragility and to build regional peace and security capacity. For example, the African Union's African Solidarity Initiative was launched in 2012 to mobilise regional state and non-state support for post-conflict countries in Africa. The West Africa Coastal Initiative (WACI) is an example of regional co-operation among the Economic Community of West African States (ECOWAS), Interpol and the UN to address organised crime. The Intergovernmental Authority on Development (IGAD) – an eight-country bloc of countries in the Horn of Africa, Nile Valley and Great Lakes – pursues co-operation in development, peace and security. It has mobilised civil servants to support institutional development in

post-conflict countries in the region, including South Sudan. Supporting institutional development and building implementation capacity of regional institutions will be a smart way of empowering national and regional actors to meet regional challenges, and to develop nationally and regionally owned solutions to fragility.

Box 4.3. **(Q.8) Demand-driven South-South and non-traditional donor co-operation in fragile situations**

Brazil has provided innovative "whole-of-government" support, which draws on Brazilian government skills in areas including security, justice, agriculture and urban planning. In Haiti, Brazil provided peacekeepers and supported justice and urban police reforms, which drew on Brazil's relevant experience in safety and security in urban dwellings (Muggah and Szabó de Carvalho, n.d.).

Turkey has introduced a hybrid public-private, civilian and military partnership model of support to Somalia that pools governmental, civil society and private-sector resources and expertise for the country. Turkey's approach is to draw upon its own experiences and expertise in public and private models of development to support Somali infrastructure and institutional development (Murphy and Woods, 2014).

The India, Brazil and South Africa Fund is administered by the United Nations Development Programme and financed by the three countries. It provides support for demand-driven projects such as rapid South African support for emergency prison reform in South Sudan (Lucey et al., 2014).

Aid can be used to leverage new sources of development finance and private investment

Table 4.2 (Q.8) summarises financial flows as a percentage of GDP to least developed countries (LDCs) and lower middle-income and upper middle-income countries on the list of fragile states and economies. Private and public finances are low as a percentage of GDP. In the post-2015 period, it will be crucial to support capacities for sustainable growth in these fragile situations. This includes scaling up low and lower middle-income countries' capacity to negotiate complex private-sector and infrastructure deals and leverage international public financing to attract private investment.

Table 4.2. **(Q.8) Sources of finance for fragile situations, by income group, 2012**

% of GDP

Flow	Fragile least developed countries (%)	Fragile low and upper middle-income countries (%)
Official development assistance excluding debt relief	6.73	1.08
Remittances	6.64	4.85
Foreign direct investment	3.51	1.48
Other official flows excluding debt relief	0.15	0.05

Sources: Remittances, FDI and GDP from World Bank (2014a), "Foreign direct investment, net inflows (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014b), "GDP figures (in current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014c), "Personal remittances, received (current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; OECD (2014c), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2014d), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*.

StatLink http://dx.doi.org/10.1787/888933185209

A range of financial instruments can also help countries to leverage private finance. These include risk guarantees, new debt instruments and equity investments. All are beneficial because they can leverage private finance for infrastructure, jobs and growth and contribute to aligning private and public incentives and goals. The impact of these new instruments in mobilising private development finance is likely to be far greater in fragile than in non-fragile situations. That is, they attract investment that would not otherwise be made available in riskier contexts with lower investor confidence (OECD, 2013b). Table 4.3 (Q.8) summarises the functions and benefits of these instruments.

Table 4.3. **(Q.8) Leveraging new development finance**

Instrument	Source	Function	Benefits
Risk guarantees	International finance institutions (and the Overseas Private Investment Corporation, OPIC)	The guarantor agrees to pay the amount due on a loan, equity or other investment in the event of non-payment or loss of value.	Leverage private loans or equity for development that would not otherwise be mobilised.
Direct equity and investment shares	Official flows, private flows from non-governmental organisations and foundations, market-based financial flows	Raise investment in companies.	Direct investment by highly rated investors (e.g. aid agencies) increases the creditworthiness of a company and attracts finance.
Asset-backed securities	Official flows, private flows (mainly Islamic development finance institutions, commercial banks, investments funds)	Common in Islamic finance. Loans are secured through a pool of underlying assets that cannot be individually sold. Returns are derived from the value of assets.	Mobilise loans for development. Have become popular in developing countries since the global financial crisis.

Source: OECD (2013b), "Possible update to classification of types of finance: Revised proposal", Working Party on Development Finance Statistics, DCD/DAC/STAT, OECD, Paris.

International financial institutions and development finance institutions are key sources of public finance for leveraging private investment. The International Finance Corporation of the World Bank (IFC) and the African Development Bank (AfDB) have committed to increasing these investments in fragile states. For example, in Côte d'Ivoire, the IFC loaned approximately USD 125 million for expansion of the Azito thermal power plant, as part of a USD 350 million debt package involving several other development finance institutions. The expansion will allow the mobilisation of another USD 450 million in FDI.

However, the poorest and most fragile countries are not drawing on the full complement of instruments to exploit potential sources of development finance, and uptake of instruments among bilateral donors and fragile countries is low. For example, fragile states benefited from less than 23% of finances leveraged through risk guarantees between 2009 and 2011 (Table 4.3 [Q.8]).

The disincentives to apply these instruments in fragile situations may include:

- **A lack of knowledge** by policy and private-sector actors about new instruments.
- **A lack of experience** in designing safeguards in fragile situations.
- **Weak legal systems and enabling investment environments** that cannot reliably enforce contracts or set the policy conditions for complex deals. (Commercial and property laws and policies receive less attention in post-conflict situations than other immediate needs.)

- **The need for the current OECD-DAC system to better reflect and incentivise the ways in which donors are engaging with the private sector**, including through the use of market-like instruments such as risk guarantees and equities. Work has already been carried out in developing a modern Development Assistance Committee (DAC) taxonomy of financial instruments and methodologies to measure private-sector resources mobilised through public actions, for example through guarantees (Mirabile et al., 2013).

Table 4.4. **(Q.8) Funds leveraged by risk guarantees in fragile and non-fragile states, 2009-11**

Fragile vs. non-fragile subtotal	Amount of foreign direct investment mobilised (USD million)	% of total
Fragile	3 079.2	22.8
Non-fragile	10 442.7	77.2
Total[1]	13 521.9	

1. Excluding "country not specified" or "multiple regions" (Mirabile et al., 2013).

StatLink http://dx.doi.org/10.1787/888933185210

The risks of investing more in fragile situations can be managed

The potential for operational failure, financial losses and risk to national and international aid workers is real. Development partners should explore and develop effective practices to share and jointly manage risks in order to reach the poorest households and communities.

Risk management involves identifying financial, operational and project risks – and weighing these against the potential benefits. Every government and institution has a different system for risk management, and the combination of these disparate systems does little to improve the coherence and complementarity of aid or government interventions, or improve donors' risk tolerance. Harmonisation of systems is difficult to achieve. Different stakeholders have different objectives, incentives, definitions, funding mechanisms, information and intelligence – and all of these are often at odds with one another or not shared. This inhibits a co-ordinated effort. The negative consequences of disjointed efforts and risk aversion can then fall on fragile states and economies with the weakest capacity to handle them.

There are ways partners can share risk and improve joint risk management in fragile situations, and efforts are underway in the OECD to rethink practices and to draw on lessons from private-sector actors:

- **At minimum, international and national actors can adopt common definitions** of risks and a common risk management framework. More ambitiously, donors could develop a set of common minimum risk management standards for use in fragile settings.
- **Guidelines should be introduced for joint donor and government risk management assessments.** Joint assessments can improve harmonisation of risk management strategies.
- **Be open and realistic.** In many fragile contexts, aid workers are asked to manage and deliver projects, but have limited freedom to move and limited ability to form local relationships and to understand location conditions and risks. This poses obvious constraints for aid project quality and management. Donors working in fragile situations

will need to continually assess risks versus reward, and adopt corresponding risk management practices to accommodate their goals and operational risk tolerances (Jacquand and Ranii, 2014).

Accountability for the impact of aid could be improved

Aid is undergoing a small but important renaissance of learning. Rigorous impact evaluation, both quantitative and qualitative, is getting greater investment from the policy community and academia. More attention is also being paid to identifying the mechanisms through which interventions work (or do not work) and the range of contexts in which particular project designs can be expected to function. Still, more investment in learning will be needed. Donors also will need to build evaluation designs that explore how projects intersect and interact, rising above project-level analysis to understand portfolio effects. Across the board, more systematic and comparable aid evaluations could help to advance knowledge and improve aid design and delivery.

At the local and national levels, fragility assessments and agreement of mutual priorities offer opportunities for governments and societies alike to hold aid more accountable. At the international level, many fragile countries and economies are on the agenda of the UN Security Council. As a result, their political and security progress is regularly monitored. No part of the global governance system, however, currently holds the international community to account for the quality of institution building and alignment of aid to national priorities in fragile situations.

In the post-2015 period, peer review and oversight mechanisms could help to inject political momentum into aligning priorities and improving the impact of aid in fragile situations.

Sources of development finance need to be scaled up for reducing fragility

ODA will continue to fill an important finance gap in the fragile countries that find it hardest to raise domestic revenue and attract international private investment. Chapter 3 of this report highlighted how many fragile situations are starting from a lower base of domestic revenues, FDI and remittances. In 2015, international negotiations on financing for development will play a pivotal role in enabling – or constraining – progress in fragile situations. Over 2014, the OECD DAC in its discussions explored various aid targets to countries most in need, including a target to allocate 50% of net ODA to the most vulnerable. Most recently it has called in a high-level meeting communiqué for increases in ODA to countries most in need, including LDCs and fragile and conflict-affected states (OECD, 2014g). It has agreed to commit to reversing the declining trend of ODA to LDCs, a significant number of which are fragile. It will also be crucial to live up to the UN target of 0.15-0.20% of gross national income (GNI) as ODA towards LDCs, a commitment which some DAC members recently reconfirmed (ibid.) – but not all.

The post-2015 financing framework will also need to address under-investments in aid in some countries and track sources of development finance for all countries that are vulnerable to fragility in the post-2015 era. Question 4 highlighted the need for more non-concessional loans to fill development finance gaps in middle-income countries.

On a global level, there are significant gaps in development finance data, and only an imperfect picture of total non-ODA sources of finance available for development. A system is needed to collate credible, accurate, timely and relevant global statistics for all available sources of development finance – not just from DAC donors, but also from non-traditional providers of development finance and private actors. Monitoring will need to more closely track results and financial flows for achieving national and international goals and targets in the future.

Next steps: A possible roadmap

The post-2015 debate offers a historic opportunity to reconsider the international approach to fragility and financing. Key decisions can be made about better tracking of fragility risks and financing to address fragility at a universal level, and about better ensuring that the poorest and most vulnerable countries and communities get the scale and quality of support they need to pursue nationally owned priorities.

These decisions will determine the trajectory of sustainable development for the security and well-being of people everywhere. The process of setting goals and targets and agreeing on a financing for development framework sets the stage for innovative approaches and thinking. Measures outlined in this report could facilitate discussions or decisions on whether to:

1. **Introduce a new tool for monitoring universal fragility risks and vulnerabilities and finance flows in the post-2015 era.** This report has proposed a working model based on five dimensions of fragility that can form the basis for further international discussion in 2015 and agreement on an international tool when post-2015 goals, targets and indicators have been agreed and as data become available. Future OECD *States of Fragility* reports could monitor trends across countries in the five dimensions of fragility discussed here, or others, and track resources and gaps in finance available to all of the most vulnerable countries. Tracking of ODA alignment to national peacebuilding and statebuilding priorities can also be improved through introducing updated aid sector codes to the OECD-DAC's Creditor Reporting System that encompass the post-2015 goals and targets and the PSGs.
2. **Allocate more of total ODA to the poorest and most fragile countries** and reverse the declining trend of ODA to LDCs. The existing UN target to allocate 0.15-0.20% of national income to least developed countries is an important guide. Imbalances in the distribution of ODA across fragile situations can also be rectified by addressing the persistent issue of underfunded "aid orphans".
3. **Agree on quantifiable targets for mobilising sources of finance beyond aid** for scaling up non-concessional resources to middle-income countries; for boosting countries' own domestic revenues; for firm international commitments to scale up support for public financial management; for reducing the transaction costs of remittances; and for a new global partnership for stemming illicit financial flows.
4. Agree on **targets and norms for tracking spending on global public goods** such as peace and security, climate, food security and health.
5. **Adapt traditional aid modalities** – such as sector and budget support – to more fragile contexts. These modalities support national ownership and capacity by harmonising and disbursing aid through national systems.
6. **Test innovative smart aid modalities** that reward national reforms such as domestic resource mobilisation; that are demand-driven by national actors; that enable multi-sectoral approaches; that build trust and quality – not just quantity – of services; that make more use of technology for reaching the poorest and most vulnerable people; and that scale up South-South, regional and triangular co-operation.

7. **Scale up the use of public finance instruments that leverage private finance** – by expanding awareness of potential instruments and incentivising their use through updating of ODA eligibility and reporting requirements.
8. **Ensure that peer reviews and oversight mechanisms capture performance** and accountability of aid actors in fragile situations, to enable knowledge sharing and to improve the impact of aid.
9. **Implement a global system for collating credible, accurate, timely and relevant global statistics for all sources of development finance** – not just from traditional donors, but non-traditional providers of development co-operation and private actors too.

Notes

1. An example was the Accra Agenda for Action of 4 September 2008, available at: *http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf*.
2. New market opportunities in Asia are widely described. See, for example: *http://blogs.wsj.com/corporate-intelligence/2014/05/15/why-made-in-ethiopia-could-be-the-next-made-in-china*; *www.worldbank.org/en/results/2014/04/11/cambodia-trade-development-support-program*; *www.worldbank.org/content/dam/Worldbank/document/EAP/cambodia/Cambodia_EAP_Update-Oct2013_ENG.pdf*; *www.bloomberg.com/news/2014-07-22/ethiopia-becomes-china-s-china-in-search-for-cheap-labor.html*.
3. Notably: *www.rescue.org/blog/mapping-evidence-base-conflict-and-post-conflict-contexts*. See also, *www.3ieimpact.org/en/evidence/impact-evaluations/impact-evaluation-repository*.
4. For example, see the audits produced by the Special Inspector General for Afghanistan Reconstruction, available at: *www.sigar.mil*.

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ANNEX A

Methodology for exploring fragility and projecting progress

There is broad consensus that fragility is dynamic and multifaceted: not all fragile states and economies face the same sets of social and institutional challenges, and they vary dramatically in the speed with which they build resilience over time. These aspects of fragility are difficult to capture in lists that present only a single snapshot in time or use a one-dimensional scale for fragility (UNDP/DIE, 2009). Accordingly, the first section of this annex presents several approaches to capturing the complexity of fragility, including:

- A **historical analysis of fragility,** which disaggregates states and economies covered by the OECD monitoring list, to illustrate their varying trends and trajectories in fragility over time.
- A **presentation of five new fragility "lenses",** each focused on a goal endorsed by the post-2015 Open Working Group. The lenses illustrate the different forms of fragility that affect all states and economies to varying degrees, and identify groups of states and economies facing challenges that are generally not captured by the traditional monitoring list.
- **Alternative scenarios of rates of progress in addressing fragility.** These projections illustrate the potential amount of time necessary for countries to reach a moderate level of success against the goal areas emerging from the Open Working Group (OWG).

This annex describes the methodology underlying each approach, and analyses trends and coding over time. It also presents the challenges in the proposed Sustainable Development Goals for the post-2015 era that can be addressed by fresh approaches to dynamic states of fragility.

Question 1: A historical perspective on the fragile states and economies list

The methodology the OECD uses to create the monitoring list has changed over time, limiting the degree to which lists from different years can be compared against one another, and the extent to which a given country's trajectory over time can be assessed.[1]

In order to generate a list that can be compared across time, the authors replicated the OECD's current methodology for producing its list, by combining the Fragile States Index and the World Bank fragile states lists for each year, from 2007 to 2015. Situations were only included in the composite list if they were identified as fragile in at least one year.

Table A.1. **Fragile states coding and trends over time**

	2007	2008	2009	2010	2011	2013*	2014	2015
Afghanistan	■	■	■	■	■	■	■	■
Angola	■	■	■	■	■	■	■	■
Bangladesh					■	■	■	■
Bosnia and Herzegovina						■	■	■
Burkina Faso					■		■	
Burundi	■	■	■	■	■	■	■	■
Cambodia	■	■	■					
Cameroon	■	■	■	■	■	■	■	■
Central African Republic	■	■	■	■	■	■	■	■
Chad	■	■	■	■	■	■	■	■
Comoros	■	■	■	■	■	■	■	■
Congo	■	■	■	■	■		■	■
Côte d'Ivoire	■	■	■	■	■		■	■
Democratic People's Republic of Korea	■	■	■	■	■	■	■	■
Democratic Republic of the Congo	■	■	■	■	■	■	■	■
Djibouti	■	■	■	■				
Egypt							■	■
Equatorial Guinea		■	■	■				
Eritrea	■	■	■	■	■	■	■	■
Ethiopia		■	■	■	■	■	■	■
Gambia	■	■	■	■	■			
Georgia					■	■		
Guinea	■	■	■	■	■	■	■	■
Guinea-Bissau	■	■	■	■	■	■	■	■
Haiti	■	■	■	■	■	■	■	■
Iran						■		
Iraq		■	■	■	■	■	■	■
Kenya		■	■	■	■	■	■	■
Kiribati	■	■	■	■	■	■	■	■
Kosovo						■	■	■
Kyrgyzstan						■		
Lao People's Democratic Republic	■	■	■					
Lebanon					■			
Liberia	■	■	■	■	■	■	■	■
Libya							■	■
Madagascar							■	■
Malawi					■	■	■	■
Mali							■	■
Marshall Islands						■	■	■
Mauritania	■	■	■				■	■
Micronesia						■	■	■
Myanmar	■	■	■	■	■	■	■	■
Nepal		■	■	■	■	■	■	■
Niger	■	■	■	■	■	■	■	■

Table A.1. **Fragile states coding and trends over time** *(cont.)*

	2007	2008	2009	2010	2011	2013*	2014	2015
Nigeria	■	■	■	■	■	■	■	■
Pakistan		■	■	■	■	■	■	■
Papua New Guinea	■	■	■	■	■			
Rwanda		■	■	■		■		■
Sao Tome and Principe	■	■	■	■	■			
Sierra Leone	■	■	■	■	■	■	■	■
Solomon Islands	■	■	■	■	■	■	■	■
Somalia	■	■	■	■	■	■	■	■
South Sudan						■	■	■
Sri Lanka					■	■	■	■
Sudan	■	■	■	■	■	■	■	■
Syrian Arab Republic							■	■
Tajikistan	■	■	■	■	■			
Timor-Leste	■	■	■	■	■	■	■	■
Togo	■	■	■	■	■	■	■	■
Tonga	■	■	■	■				
Tuvalu							■	■
Uganda		■	■	■	■	■	■	■
Uzbekistan	■	■	■		■			
Vanuatu	■	■	■					
West Bank and Gaza Strip				■	■	■	■	■
Yemen	■	■	■	■	■	■	■	■
Zimbabwe				■	■	■	■	■

* The OECD did not publish a list of fragile states in 2012.
Note that the years in this table refer to the publication year of the OECD report, not the year in which the two "parent lists" – the Harmonized List and FfP Fragile States Index – were published.

Sources: OECD (2006, 2007, 2008, 2010, 2011, 2013, 2014), Fragile States reports 2007-15, OECD Publishing, Paris, see: *www.oecd.org/dac/governance-peace*.

Question 2: A post-2015 perspective on fragility

Question 2 sets out a new approach to assessing aspects of fragility of particular relevance to the post-2015 agenda. The main goals of this approach are to identify groups of countries – both fragile and non-fragile – that will face similar challenges in making progress on the emerging post-2015 development agenda; to highlight countries facing stress factors that are likely to affect their ability to deliver sustainable development in the coming decades; and to illustrate differences in the geography and context of fragility, as compared to the traditional list of fragile states and economies.

The specific approach taken is to disaggregate fragility, by presenting five discrete indices and sets of country rankings. These indices are designed to measure goals drawn directly from the OWG's proposed Goal 16. These include peaceful societies, justice for all, and effective and accountable institutions. Additional dimensions cover the economic fundamentals for peaceful and sustainable development, and resilience to shocks and hazards. For each goal proposed by the OWG, the authors designed a separate index, ranked all states and economies for which data were available (2012 data unless otherwise stated), and identified the 50 most vulnerable ones. For each goal proposed by the OWG, the authors designed a separate index. Each index is based on three datasets for each cluster (Table A.2 summarises the indicators and goal areas linked to each ranking). Each dataset was then rescaled to a scale from 0 to 100. The index is the average of these three numbers. Using this index, country lists were sorted from worst to best performing, and the 50 lowest performing countries and economies for each index are considered "vulnerable" or "challenged" in that area. Of particular interest in the context of this report were countries vulnerable across multiple dimensions.

Table A.2. **Indicators of fragility based on the post-2015 Open Working Group goals**

Fragility "lens"	Data sources for bottom-50 list Average of normalised indicators (scaled 0-100)	Relevant OWG goals
Peaceful and inclusive societies	• Battle-related deaths, best estimate (BdBest) (Uppsala University, 2014) • Interpersonal injuries, disability adjusted life years (DALYs) (WHO, 2014) • Political instability - average of figures, perceptions of the likelihood of political instability and/or politically motivated violence including terrorism (World Bank, 2014b)	"Significantly reduce all forms of violence and related death rates everywhere." (16.1)
Access to justice	• Birth registration – percentage of children under age 5 whose births are registered, data available for countries between 2001 and 2012 (UNICEF, 2014) • Control of corruption – average of figures, perceptions of the extent to which public power is exercised for private gain, Worldwide Governance Indicators (World Bank, 2014a) • Rule of law – average of figures, perceptions of the extent to which agents have confidence in and abide by the rules of society (ibid.)	"Promote the rule of law at the national and international levels, and ensure equal access to justice for all." (16.3) "Substantially reduce corruption and bribery in all its forms." (16.5)
Effective and accountable institutions	• Government effectiveness – average of figures, perceptions of public services, quality of civil service, its degree of independence from political pressures, quality of policy formulation, credibility of government's commitment to policies (ibid.) • Regulatory quality – average of figures, perceptions of the ability of government to formulate and implement sound policies and regulations that permit and promote private-sector development (ibid.) • Voice and accountability – average of figures, perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, association and a free media (ibid.)	"Develop effective, accountable, and transparent institutions at all levels." (16.6) "Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements." (16.10)
Economic foundations	• Doing Business Index – ease of doing business, average of a country's percentile rankings on ten topics (World Bank, 2014b) • Education years – scaled years of education (Barro and Lee, 2010) • GDP growth – ten-year average (IMF, 2014)	"By 2020 substantially reduce the proportion of youth not in employment, education, or training." (8.6)
Resilience	• Income inequality (Gini Index) – International Futures model (IFs, 2014) • Healthcare capabilities (US National Intelligence Council, 2008) • Vulnerability – estimates the disaster risk of a country using internal and external factors, 2014, World Risk Index (UNU-EHS, 2013)	"By 2030 build the resilience of the poor and those in vulnerable situations, and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters." (1.5) "Strengthen resilience and adaptive capacity to climate related hazards and natural disasters in all countries." (13.1)

Box A.1. **Reducing fragility: Selected targets proposed by the Open Working Group on Sustainable Development Goals**

Promote peaceful and inclusive societies

- Significantly reduce all forms of violence and related death rates everywhere (16.1).
- End abuse, exploitation, trafficking and all forms of violence and torture against children (16.2).
- Strengthen relevant national institutions, including through international co-operation … for preventing violence and combating terrorism and crime (16.a).
- Eliminate all forms of violence against all women and girls in public and private spheres, including trafficking and sexual and other types of exploitation (5.2).
- Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilations (5.3).
- […] provide safe, non-violent, inclusive and effective learning environments for all (4.a).
- […] by 2025 end … recruitment and use of child soldiers (8.7).
- Strengthen prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol (3.5).

Justice for all

- Promote the rule of law at the national and international levels, and ensure equal access to justice for all (16.3).
- By 2030 significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organised crime (16.4).
- Substantially reduce corruption and bribery in all its forms (16.5).

Effective, accountable and inclusive institutions

- Develop effective, accountable and transparent institutions at all levels (16.6).
- Ensure responsive, inclusive, participatory and representative decision making at all levels (16.7).
- Broaden and strengthen the participation of developing countries in the institutions of global governance (16.8).
- By 2030 provide legal identity for all including birth registration (16.9).
- Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements (16.10).
- Promote and enforce non-discriminatory laws and policies for sustainable development (16.b).

Economic foundations

- By 2020 substantially reduce the proportion of youth not in employment, education or training (8.6).
- By 2030 empower and promote the social, economic and political inclusion of all […] (10.2).
- Facilitate orderly, safe, regular and responsible migration and mobility of people […] (10.7).
- By 2030 ensure universal access to affordable, reliable and modern energy services (7.1).
- By 2030, ensure access for all to adequate, safe and affordable housing and basic services, and upgrade slums (11.1).

Box A.1. Reducing fragility: Selected targets proposed by the Open Working Group on Sustainable Development Goals *(cont.)*

Increasing resilience

- By 2030 build the resilience of the poor and those in vulnerable situations, and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters (1.5).
- By 2030 significantly reduce the number of deaths and the number of affected people and decrease by y% the economic losses relative to GDP caused by disasters […] (11.5).
- Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries (13.1).
- […] strive to achieve a land-degradation neutral world (15.3).

Source: Open Working Group (2014), "Introduction to the Proposal of the Open Working Group for Sustainable Development Goals", received 21 July 2014.

Question 3: Scenarios

Question 3 explores the ambition of the post-2015 agenda, particularly for fragile states and countries facing challenges in several areas likely to be emphasised in global goals and targets. The core analytical tool is a series of projections that estimate how long a given country or economy will take to reach a target level of capacity under differing assumptions. These projections are not intended as predictions, but rather as ways to benchmark and examine expectations regarding rates of progress on development objectives.

Projections were developed for a core goal area for which cross-national time series data were available. The projections were designed in three stages: goal setting, estimating rates of change and computing a set of potential "goal achievement years" for each country under different assumptions about rates of progress. This approach explicitly draws on methodologies developed by Pritchett et al. (2013).[2]

The indicators employed are the same as in the Institutions Cluster (see previous section concerning Question 2): regulatory quality, voice and accountability, and government effectiveness, all from the World Bank's World Governance Indicators.

Goal setting

For the Institutions Index, the 70th percentile value was chosen as the target objective. This goal is arbitrary, but was chosen as a threshold that is both ambitious and realistic. Countries were ranked by their 2012 values, from best to worst, and the 70th percentile value was identified, by using the lowest value and the highest value to scale the scores from 0 to 100.

The Institutions Index goal is 0.02; sample countries around the Institutions goal value include Tuvalu (0.019) and Suriname (-0.002). In short, the goal for the Institutions Index is to reach Suriname's approximate level of development.

Estimating rates of change

The authors then identified historical rates of institutional change for each country, by computing the average point per year change in the indicators for the Institutions Index, using all available data points from 1996-2012. Estimates were applied to the disaggregated data and then averaged. This process was used to derive three scenarios for each country.

The business-as-usual projection takes the average historical rate of change and assumes that it will continue into the future. For instance, if a given country historically improved its "voice and accountability" by 0.02 points per year, this average is projected forward in time.

The modestly optimistic projection was developed by identifying the 70th percentile rate of improvement for each indicator. Countries were ordered by rate of change from 1996 to 2012, from best to worst, and the 70th percentile rate was found (using the lowest value and the highest value to scale the scores from 0 to 100). The 70th percentile rates for each indicator are:

- Voice and accountability: 0.044 points per year.
- Government effectiveness: 0.0232 points per year.
- Regulatory quality: 0.043 points per year.

The best-case scenario was developed by identifying the average rate of change for the top three countries and economies that had the fastest historical rate of improvement for each indicator. The top three countries and economies and average rate for each sub-indicator are:

- Voice and accountability: 0.093 points per year (Kosovo, Niger, Serbia).
- Government effectiveness: 0.067 points per year (Afghanistan, Georgia, Rwanda).
- Regulatory quality: 0.085 points per year (Georgia, Rwanda, West Bank and Gaza Strip).

Identifying goal achievement year

A range of goal completion years was estimated for each country. The estimates were derived by taking the rate of improvement under each scenario and projecting it forward from the most recent available year of data, which is 2012. For each year, indicator values were averaged into the Institutions Index, and compared to the goal values (given above). For each scenario, the first instance in which a country's score matches or exceeds the goal value is recorded as the date the goal is reached. Countries that did not reach the target by 2063 are marked as "after 2063". Countries with negative baseline values – worsening rather than improving scores – are coded as never reaching the target.

Question 4: Aid metrics

Official development assistance excluding debt relief

Unlike previous years' *Fragile States* reports, this report uses official development assistance (ODA) excluding debt relief as its primary metric in examining aid flows. This choice allows the study of flows that enter developing countries, instead of debt that has been forgiven on a country's balance sheet.

Other official flows excluding debt relief – A first look at non-concessional flows to fragile states

This is the first year that the *Fragile States* report examines non-concessional other official flows (OOF) to fragile states and economies. To correspond with the removal of debt relief from the ODA figures, debt relief was also deducted from the OOF data figures.

Converting financial flows from current USD

It was decided for this report to convert current USD figures into constant 2012 USD using the corresponding US GDP deflator to show financial flows over time in real terms. However, it should be noted that using this methodology to convert the flows into constant

USD is intended to capture the scale of the amount of flows from the development assistance provider's perspective and may or may not be an accurate representation of the scale of the amount from the recipient country's perspective.

Question 5: Data availability – Financial flows to fragile states

In examining financial flows in aggregate, per capita and percentage of gross domestic product (GDP), data for these flows in one or more years were missing for many fragile states. As seen in Table A.3, in 2012, data for remittances, OOF excluding debt relief, foreign direct investment (FDI) and ODA excluding debt relief are incomplete.

Table A.3. **Data availability for three main external financial flows to fragile states, 2012**

Flow	% of countries with data
Foreign direct investment	94
Remittances	64
Official development assistance (excluding debt relief)	100
Other official flows (excluding debt relief)	80

Sources: FDI and remittances data from World Bank (2014a), "Foreign direct investment, net inflows (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014b), "GDP figures (in current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014c), "Personal remittances, received (current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; OECD (2014a), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2014b), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*.

Beyond the question of data gaps in financial flows data, there is a more fundamental issue of missing data in population and GDP estimates. As a consequence, some fragile states that have data on financial flows cannot be counted in per capita or percentage GDP calculations. This further complicates the task of finding per capita and percentage GDP figures that are truly representative of all countries and economies on the fragile states list.

As a result of all of these issues, the figures presented in this report should be taken as approximations using the best available data sources but may deviate, in some cases potentially significantly, from the actual true values of the financial flows to fragile states. Better data quality in this area would greatly help to improve confidence and resulting policy recommendations on financial flows to fragile states in the future.

Question 6: Matching aid to the New Deal Peacebuilding and Statebuilding Goals

In order to estimate the amount of aid being directed to areas related to the Peacebuilding and Statebuilding Goals (PSGs), this report examined aid allocated at the individual project level through the OECD Creditor Reporting System (CRS).[3] A manual matching process was performed between the five PSG areas and the descriptions of the OECD's sector codes in order to approximate the scale of the amount of aid directed at projects in line with each of the PSGs. As mentioned in Chapter 5, the resulting figures should be seen as a rough estimate. To obtain more precise numbers, it would be necessary to analyse the specifics of each of the thousands of individual projects listed in the *CRS database* and to evaluate systematically whether a particular project contributed towards one or more of the PSGs. To avoid double counting, projects were only counted toward one PSG, which in some cases was an artificial distinction as there is definite overlap between the five PSG areas. It was particularly difficult to differentiate between projects contributing to areas related to PSG 4 (economic foundations) and PSG 5 (revenues and services). In presenting the data, therefore, aid allocated to either area was combined into one lump sum (see Figure 3.7 [Q.5]). These limitations should all be taken into consideration when viewing and interpreting the relative amounts of donors' aid allocations to the five PSG areas. If anything, doing this matching highlighted the need for a better tracking system for aid toward PSG-related areas.

Notes

1. The 2007 list was assembled by identifying states in the bottom two quintiles of the World Bank's Country Policy and Institutional Assessment (CPIA) ranking as fragile; it also included non-ranked states such as the Democratic People's Republic of Korea as well as several states that clustered just above the fourth quintile cutoff. From 2008-10, the list was compiled using the bottom two CPIA quintiles, data from the Brookings Index of State Weakness in the Developing World (Rice and Patrick, 2008 and the Carleton University Country Indicators for Foreign Policy [CIFP] Index, 2007). Since 2010, the fragile states list has been produced by combining the Harmonized List of Fragile Situations produced by multilateral development banks including the World Bank, the Asian Development Bank and the African Development Bank, with countries scoring 90 or above on the Fragile Country States Index produced by The Fund for Peace.
2. See also World Bank (2011) and Pritchett and de Weijer (2010).
3. CRS data can be found at: *http://stats.oecd.org*.

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ANNEX B

Supplemental data on financial flows to fragile states and economies

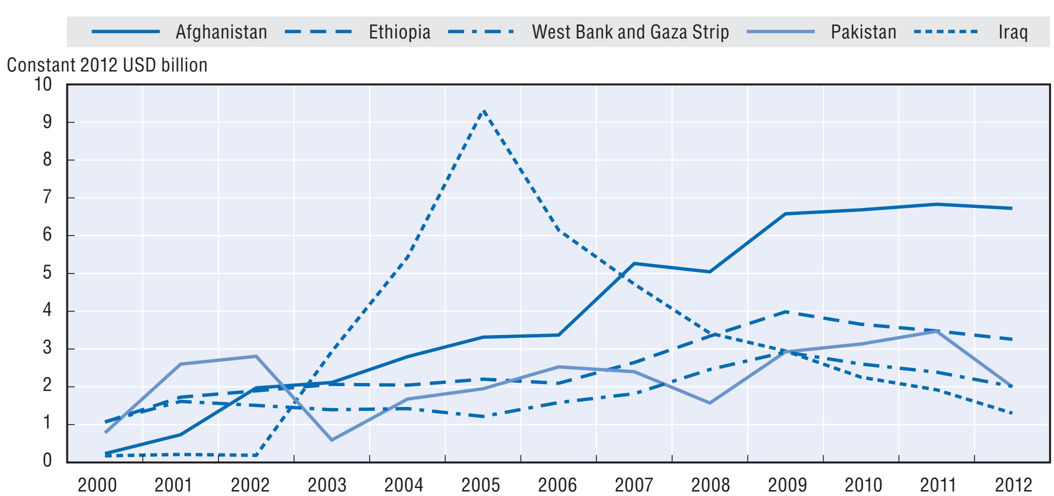
This annex elaborates on some of the findings in the main body of this report, providing additional statistical data particularly for Chapters 3 and 4. It also summarises supplemental data on financial flows to fragile states compared to other developing countries, provides country by country snapshots of per capita and percentage gross domestic product (GDP) flows, and provides details on the major providers of development co-operation and foreign direct investment.

Development co-operation in fragile states

Chapter 3 noted the uneven distribution of official development assistance (ODA) across fragile states, where it is often allocated to situations of geopolitical importance to development co-operation providers. Figure B.1 illustrates both of these points, showing flows to Iraq peaking dramatically in 2005 at over USD 9 billion and decreasing just as sharply while ODA flows to Afghanistan steadily increased throughout the period to 2012. When ODA allocation is politically driven, the countries that benefit often also suffer from volatility in those flows.

Figure B.1. **Aid to select fragile states and economies, 2000-12**

ODA excluding debt relief, constant 2012 USD billion



Source: OECD (2014a), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en.*

StatLink http://dx.doi.org/10.1787/888933185222

ODA, even excluding debt relief, includes elements such as humanitarian aid that can vary significantly from year to year. Country programmable aid (CPA) can give a better picture of aid flows. CPA is the portion of aid donors' programme for individual countries, and over which partner countries could have a significant say. It excludes, among other things, spending which is inherently unpredictable or entails no flows to the recipient country. Table B.1 presents CPA between 2003 and 2012. Some fragile states, such as Afghanistan, which received the largest amount of CPA in 2012 among those on the fragile states list, show a strong increase in CPA over the decade. Others, such as Bosnia and Herzegovina, received far less in 2012 than they did in 2003. Another group of fragile states and economies, among them Timor-Leste, received about the same amount of CPA in 2012 as in 2003.

Table B.1. **Country programmable aid to fragile states and economies, 2003-12**

Constant 2012 USD million

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Afghanistan	1 463	2 205	2 851	2 886	4 920	3 968	5 745	5 696	5 923	6 094
Bangladesh	1 995	1 924	1 893	1 817	1 897	2 463	1 808	1 909	2 030	2 748
Bosnia and Herzegovina	611	741	532	562	612	412	396	485	376	321
Burundi	151	259	244	299	377	403	433	537	466	457
Cameroon	332	447	325	500	572	526	637	538	548	559
Central African Republic	46	108	86	177	161	163	188	162	184	159
Chad	300	300	329	240	198	242	263	258	245	216
Comoros	24	23	18	26	37	37	44	65	42	55
Congo	60	141	117	116	99	127	81	114	160	97
Côte d'Ivoire	188	163	106	214	187	679	869	620	1 200	698
Democratic People's Republic of Korea	46	58	41	26	52	90	26	47	62	49
Democratic Republic of the Congo	645	909	1 132	868	727	1 175	1 744	1 592	1 729	1 584
Egypt	1 768	2 196	1 664	1 389	1 706	2 337	1 639	1 385	995	1 819
Eritrea	202	179	206	98	128	104	98	126	110	124
Ethiopia	1 011	1 411	1 297	1 520	2 089	2 110	3 051	2 590	2 669	2 536
Guinea	278	266	233	209	242	245	176	216	305	331
Guinea-Bissau	87	81	61	78	111	111	133	116	100	58
Haiti	219	224	441	524	578	678	903	1 287	1 047	902
Iraq	1 693	4 225	8 552	5 688	4 306	3 010	2 393	1 994	1 594	1 192
Kenya	737	715	850	863	1 273	1 209	1 629	1 584	2 186	2 413
Kiribati	30	23	36	36	34	31	34	18	61	63
Kosovo							745	576	576	516
Liberia	33	80	105	136	644	649	355	457	462	453
Libya			19	34	14	78	43	38	58	97
Madagascar	550	855	673	728	779	797	392	439	352	331
Malawi	564	560	583	600	685	855	742	958	701	1 039
Mali	693	692	817	846	891	921	974	1 040	1 213	695
Marshall Islands	68	60	66	59	57	57	63	96	84	77
Mauritania	241	218	188	201	313	408	352	375	351	361
Micronesia	141	103	123	122	127	100	128	132	135	114
Myanmar	130	106	127	124	146	175	194	284	275	379
Nepal	607	528	502	585	670	712	920	928	899	833
Niger	455	422	460	456	478	495	381	437	441	537
Nigeria	388	661	875	1 056	1 111	1 338	1 791	2 091	1 903	2 031
Pakistan	1 505	1 990	1 795	2 542	2 647	1 982	3 058	2 380	2 508	2 300
Rwanda	358	495	570	562	689	873	903	975	1 206	841
Sierra Leone	253	338	313	287	288	335	416	420	379	400
Solomon Islands	172	208	308	318	344	293	291	371	332	304
Somalia	90	77	79	110	115	176	185	238	270	412
South Sudan								-	586	701
Sri Lanka	1 129	874	1 036	1 103	923	1 032	1 076	922	970	892

Table B.1. **Country programmable aid to fragile states and economies, 2003-12** *(cont.)*

Constant 2012 USD million

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sudan	464	326	652	863	813	1 164	1 119	1 175	616	588
Syrian Arab Republic	346	288	236	192	224	306	268	251	396	183
Timor-Leste	239	207	224	236	263	267	228	277	243	271
Togo	60	66	74	75	103	321	221	218	252	164
Tuvalu	10	11	10	21	14	19	21	13	27	23
Uganda	1 116	1 263	1 178	1 366	1 509	1 324	1 630	1 634	1 450	1 560
West Bank and Gaza Strip	1 286	1 156	981	1 121	1 351	2 058	2 078	2 110	1 732	1 529
Yemen	321	339	401	386	354	543	518	703	375	538
Zimbabwe	142	160	177	177	243	233	355	499	511	805

Source: OECD (2014b), "Detailed aid statistics: Country programmable aid (CPA)", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00585-en.*

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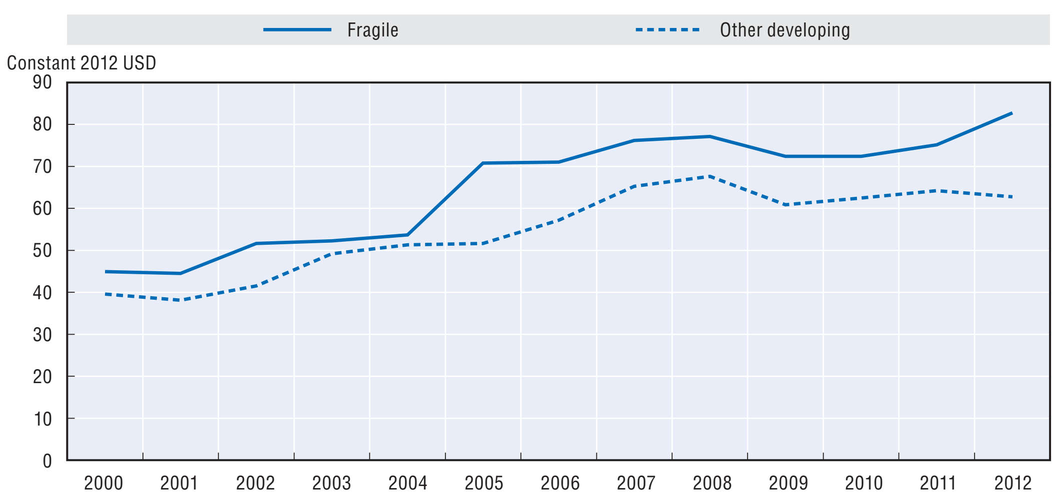
Remittances to fragile countries and economies

While development co-operation is critical for many states, remittances are an even larger aggregate financial flow to fragile situations (see Chapter 3). Both fragile and non-fragile developing countries have received increasing remittance flows per capita, but remittance inflows per capita to fragile states have outpaced those to other developing countries consistently since 2000 as shown in Figure B.2.

Figure B.2. **Remittances per capita, 2000-12**

Constant 2012 USD



Sources: World Bank (2014c), "Personal remittances, received (current USD)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; World Bank (2014d), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL.*

StatLink http://dx.doi.org/10.1787/888933185242

Remittances are also shown on a per capita and percentage GDP basis in Tables B.2 and B.3. Countries and economies depend on remittance inflows to varying extents. Haiti, Nepal, and the West Bank and Gaza Strip all received remittance inflows worth more than 20% of their total GDP for the year in 2012. That is significant, especially considering these flows go directly to households.

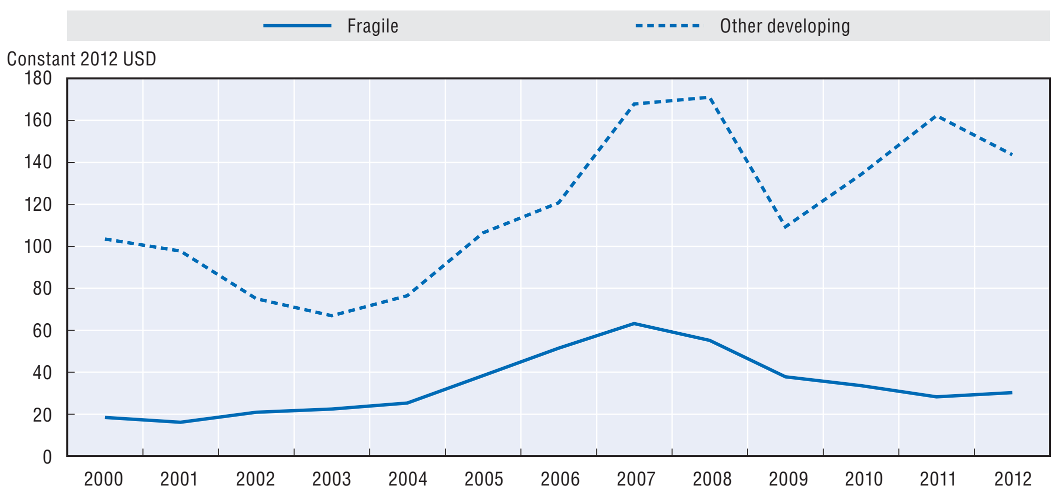
Foreign direct investment and other official flows to fragile situations

Fragile states receive more ODA and remittances per capita than other developing countries. The opposite is true in regard to foreign direct investment (FDI) inflows (Figure B.3). In 2012, on average, fragile states received per capita inflows that were only one-fifth of those of other developing countries.

Separating flows by fragile and other developing economies underscores the extreme volatility of FDI between 2000 and 2012 to all developing countries. Developing countries, fragile states included, received increased flows in the 2000s, but these dropped sharply during the financial crisis of 2008 and 2009. FDI to non-fragile developing states then steadily recovered, and reached near pre-crisis levels by 2012. However, FDI to fragile states has continued to steadily decline.

Figure B.3. **Foreign direct investment per capita, 2000-12**

Constant 2012 USD



Sources: World Bank (2014a), "Foreign direct investment, net inflows (% of GDP)", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014b), "GDP (current USD)", *World Development Indicators*, available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014d), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL*.

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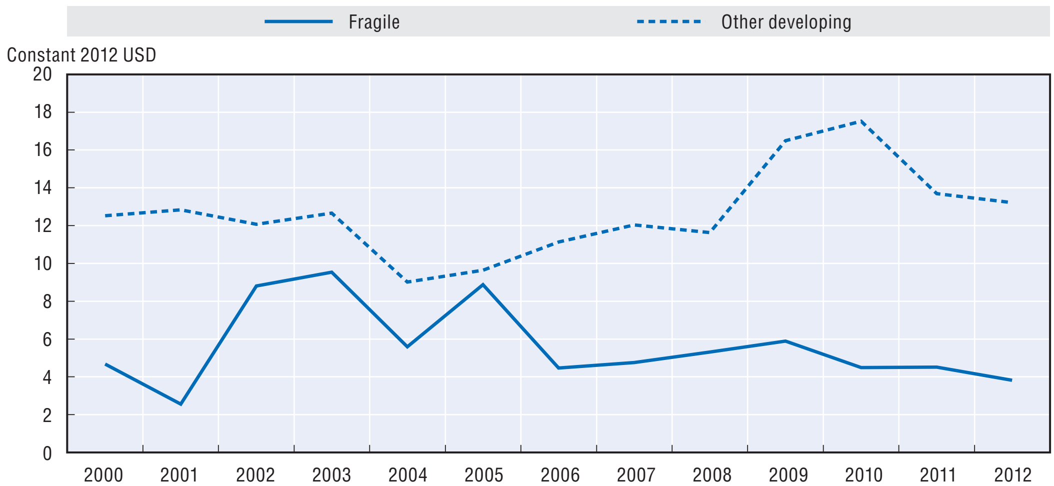
Nonetheless, FDI remains an important financial flow for many fragile states. As an example, Cameroon receives almost as much FDI per capita (USD 24.43) as it does ODA (USD 27.47). In the Republic of the Congo, FDI inflows per capita (USD 635.90) are far greater than ODA per capita (USD 31.08) (Table B.2).

This report also examines non-concessional other official flows (OOF). OOF are transactions by the public sector with developing countries which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development or because they have a grant element of less than 25%. As with FDI, considerably more OOF per capita flows to non-fragile developing countries than to fragile states, as seen in Figure B.4. It may be more challenging for fragile states to seek and/or be offered OOF.

While OOF to fragile states tends to be much smaller in magnitude, in several fragile states, such as Guinea, Liberia, Mauritania and the Solomon Islands, OOF inflows consisted of more than 2% of GDP in 2012.

Figure B.4. **Other official flows per capita, 2000-12**

OOF excluding debt relief, constant 2012 USD



Sources: OECD (2014c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; World Bank (2014d), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL.*

StatLink http://dx.doi.org/10.1787/888933185263

Relative financial flows to fragile states by country

As Tables B.2 and B.3 demonstrate, there is a degree of variation in the individual per capita and percentage GDP flows to each fragile state and economy. Afghanistan received far more in ODA than any other flow per capita in 2012; at the same time, the Republic of the Congo and Egypt received far more in FDI and remittances respectively. A few states, such as Guinea and Mauritania, received significant OOF when measured in terms of both per capita and percentage GDP. These variations underscore the importance of assessing financial flows to individual fragile states, which can shift dramatically from one point in time to another, as well as looking at the overall picture of financial flows to fragile states.

Table B.2. **Financial flows per capita by fragile state or economy**

2012 USD

	Foreign direct investment inflows	Official development assistance (excluding debt relief)	Other official flows (excluding debt relief)	Remittance inflows
Afghanistan	3.15	225.44	1.81	12.91
Bangladesh	9.53	13.91	2.21	91.27
Bosnia and Herzegovina	91.19	148.97	56.95	482.23
Burundi	0.06	53.00	0.00	4.71
Cameroon	24.23	27.47	4.97	9.70
Central African Republic	15.73	50.04		
Chad	27.54	38.40	2.91	
Comoros	14.46	90.29		
Congo	635.90	31.08	0.50	
Côte d'Ivoire	16.23	30.46		
Democratic People's Republic of Korea	4.85	3.86	0.09	
Democratic Republic of the Congo	44.01	33.69	0.68	0.19
Egypt	34.66	21.58	12.88	238.30

Table B.2. **Financial flows per capita by fragile state or economy** *(cont.)*

2012 USD

	Foreign direct investment inflows	Official development assistance (excluding debt relief)	Other official flows (excluding debt relief)	Remittance inflows
Eritrea	6.75	21.82		
Ethiopia	3.04	35.51	1.06	6.81
Guinea	52.87	25.43	11.54	5.79
Guinea-Bissau	3.98	47.16		
Haiti	15.33	125.27	0.96	158.48
Iraq	104.36	39.93		8.32
Kenya	5.99	61.06	6.11	28.11
Kiribati	8.43	41.56	8.33	
Kosovo	162.25	314.14	0.75	586.04
Liberia	234.96	136.25	8.95	
Libya	231.53	14.15		
Madagascar	36.44	16.97	1.40	
Malawi	8.14	73.77		1.78
Mali	26.79	67.31	0.00	
Marshall Islands	65.19	1 446.29	0.76	
Mauritania	364.44	107.46	86.07	
Micronesia	7.74	1 112.63	15.38	
Myanmar	42.48	9.54	0.03	2.41
Nepal	3.35	27.81	0.16	174.47
Niger	49.03	52.52	0.17	
Nigeria	42.06	11.35	0.94	122.21
Pakistan	4.79	11.18	5.11	78.18
Rwanda	13.95	76.64	6.16	15.92
Sierra Leone	91.67	74.04	6.98	10.20
Solomon Islands	124.19	554.91	63.26	31.24
Somalia	10.53	97.95		
South Sudan		145.61		
Sri Lanka	46.30	23.98	16.46	295.14
Sudan	62.18	26.43	1.69	10.79
Syrian Arab Republic		74.62	0.72	
Timor-Leste	17.47	246.37	1.70	98.95
Togo	14.12	28.57	11.17	
Tuvalu		2 483.77	20.28	
Uganda	33.16	45.54	4.03	25.05
West Bank and Gaza Strip	44.38	497.03	7.58	508.96
Yemen	0.60	29.74		
Zimbabwe	29.11	72.95	1.62	

Sources: ODA excl. debt and OOF from OECD (2014a), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en* and OECD (2014c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; remittances and FDI inflows, population data from World Bank (2014d), "Population total", *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/SP.POP.TOTL*.

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Table B.3. **Financial flows as a percentage of GDP in fragile states and economies, 2012**

	Foreign direct investment inflows (%)	Official development assistance (excl. debt relief) (%)	Other official flows (excl. debt relief) (%)	Remittance inflows (%)
Afghanistan	0.5	32.8	0.3	1.9
Bangladesh	1.3	1.9	0.3	12.2
Bosnia and Herzegovina	2.1	3.4	1.3	11.0
Burundi	0.0	21.1	0.0	1.9
Cameroon	2.0	2.3	0.4	0.8
Central African Republic	3.3	10.4		
Chad	2.7	3.7	0.3	
Comoros	1.7	10.9		
Congo	20.2	1.0	0.0	
Côte d'Ivoire	1.3	2.4	0.2	
Democratic People's Republic of Korea				
Democratic Republic of the Congo	10.5	8.1	0.2	0.0
Egypt	1.1	0.7	0.4	7.3
Eritrea	1.3	4.3		0.0
Ethiopia	0.7	7.6	0.2	1.5
Guinea	10.7	5.2	2.3	1.2
Guinea-Bissau	0.8	9.5		
Haiti	2.0	16.2	0.1	20.4
Iraq	1.6	0.6		0.1
Kenya	0.6	6.5	0.7	3.0
Kiribati	0.5	37.0	0.5	
Kosovo	4.5	8.8	0.0	16.4
Liberia	56.8	32.9	2.2	
Libya	1.7	0.1		
Madagascar	8.2	3.8	0.3	
Malawi	3.1	27.7		0.7
Mali	3.8	9.7	0.0	
Marshall Islands	2.0	43.9	0.0	
Mauritania	34.9	10.3	8.3	
Micronesia	0.2	35.3	0.5	
Myanmar				
Nepal	0.5	4.0	0.0	25.0
Niger	12.4	13.3	0.0	
Nigeria	1.5	0.4	0.0	4.5
Pakistan	0.4	0.9	0.4	6.2
Rwanda	2.2	12.3	1.0	2.6
Sierra Leone	14.5	11.7	1.1	1.6
Solomon Islands	6.8	30.5	3.5	1.7
Somalia				
South Sudan	0.0	14.9	0.0	
Sri Lanka	1.6	0.8	0.6	10.1
Sudan	3.7	1.6	0.1	0.6

Table B.3. **Financial flows as a percentage of GDP in fragile states and economies, 2012** *(cont.)*

	Foreign direct investment inflows (%)	Official development assistance (excl. debt relief) (%)	Other official flows (excl. debt relief) (%)	Remittance inflows (%)
Syrian Arab Republic				
Timor-Leste	1.5	20.9	0.1	8.4
Togo	2.4	4.8	1.9	
Tuvalu	0.0	61.4	0.5	
Uganda	6.0	8.3	0.7	4.5
West Bank and Gaza Strip	1.8	19.6	0.3	20.1
Yemen	0.0	2.2		
Zimbabwe	3.2	8.0	0.2	

Sources: ODA excl. debt relief and OOF excl. debt relief from OECD (2014a), “Detailed aid statistics: ODA official development assistance: Disbursements”, *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en* and OECD (2014c), “Detailed aid statistics: Other official flows OOF”, *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; remittance and FDI inflows, GDP from World Bank (2014a), “Foreign direct investment, net inflows (% of GDP)”, *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS*; FDI as a percentage of GDP converted to USD using World Bank (2014b), “GDP figures (in current USD)”, *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*; World Bank (2014c), “Personal remittances, received (current USD)”, *World Development Indicators* (database), available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*.

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Providers of development co-operation and foreign direct investment to fragile states and economies

Most of this report explored financial flows from the recipient perspective. It is also important, however, to look at the source of such flows. Figure B.5 shows the top providers of ODA to fragile states and economies in 2012. This list largely comprises OECD countries as well as some non-OECD aid donors who choose to voluntarily report their ODA contributions to the OECD.

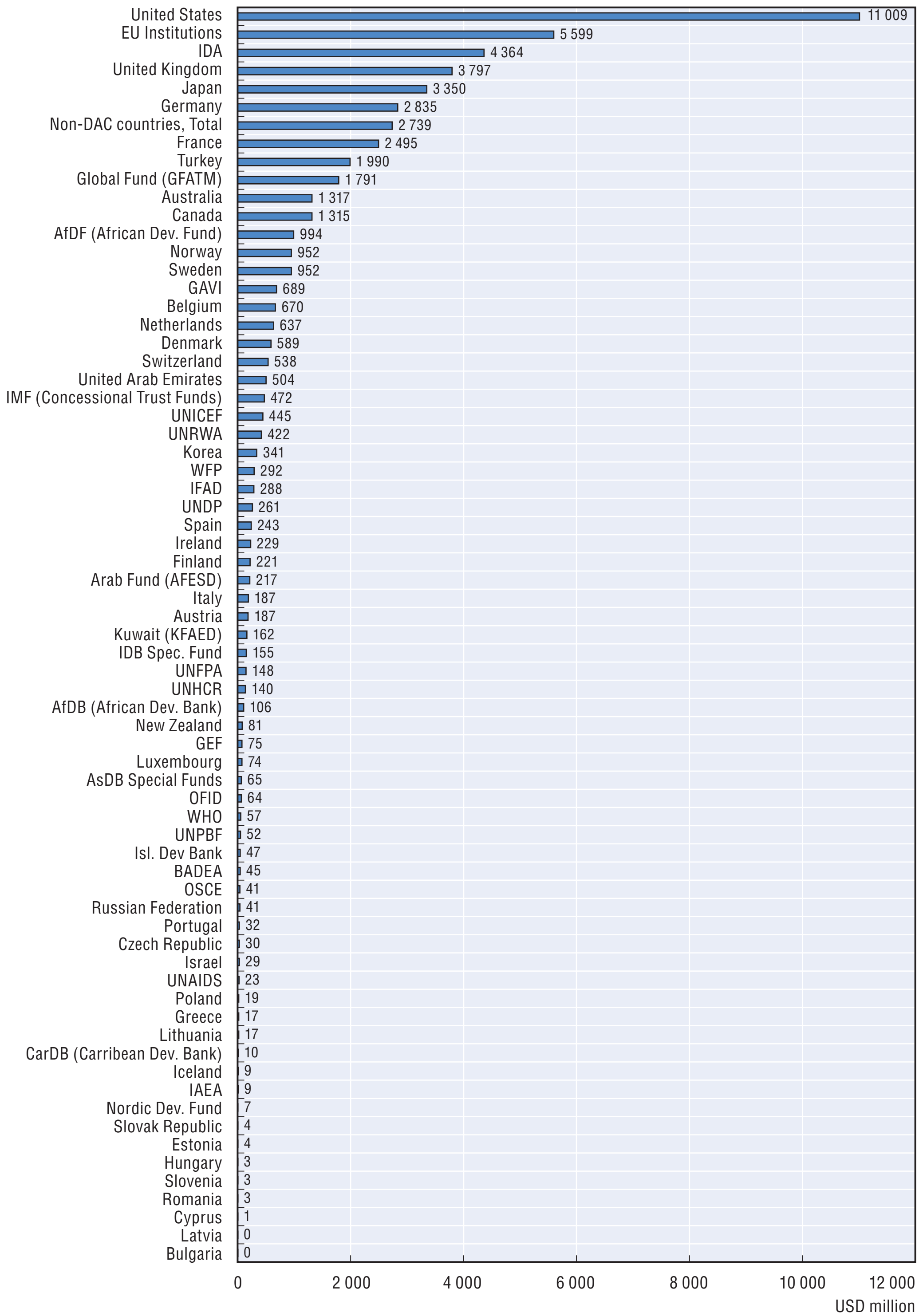
OECD donors provide the largest amount of aid to fragile states, with the United States topping the list, followed by EU institutions and the United Kingdom. Other bilateral donors and multilateral organisations are also playing a key role in providing development co-operation to fragile states.

Table B.4 shows the largest providers of FDI to fragile states. It is important to note that these figures only present data on OECD member countries for which there is matched FDI data, so this dataset excludes most non-OECD FDI investors in fragile states. Figures for the average FDI investment between 2008 and 2012 were used as year-on-year point estimates and vary quite significantly. Nonetheless, the picture looks similar to that of the ODA donors with some exceptions.

The United States outpaces other top FDI investors in fragile states, followed by the United Kingdom, France and Italy. FDI in fragile states from France and Italy was larger in 2012 than public aid flows from those two countries, which underscores the significant investments made by their private sectors.

Figure B.5. **Providers of official development assistance to fragile states and economies**

2012 USD million



Source: OECD (2014a), "Detailed aid statistics: ODA official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en.*

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Table B.4. **Top 10 OECD foreign direct investors in fragile states**

Average 2008-12, USD million

	Average foreign direct investment
United States	4 067.80
United Kingdom	1 935.30
France	1 514.87
Italy	1 240.98
Luxembourg	1 214.87
Korea	775.41
Germany	725.89
Japan	492.79
Belgium	412.56
Switzerland	255.58

Source: OECD (2014d), "Foreign direct investment: Flows by partner country", *OECD International Direct Investment Statistics,* (database), *http://dx.doi.org/10.1787/data-00335-en.*

StatLink http://dx.doi.org/10.1787/888933185306

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