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.

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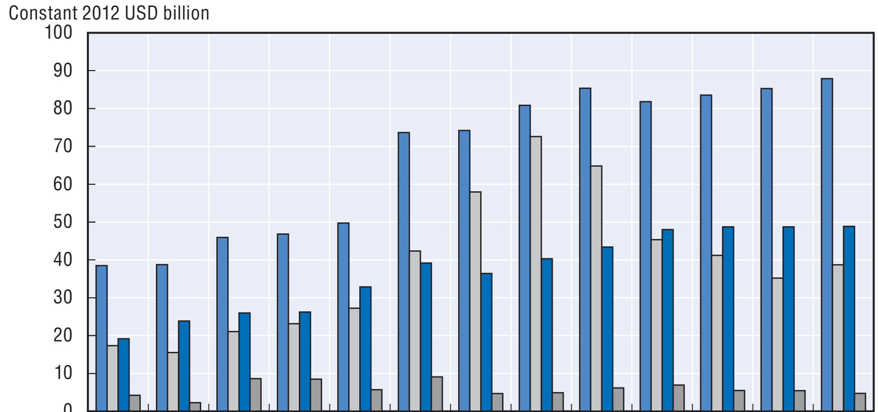
However, these external sources of finance flow to different public and private beneficiaries and geographical locations for very different purposes.[1] In 2012, most FDI went to just six resource-rich countries for investment in the extractive industries. While

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.

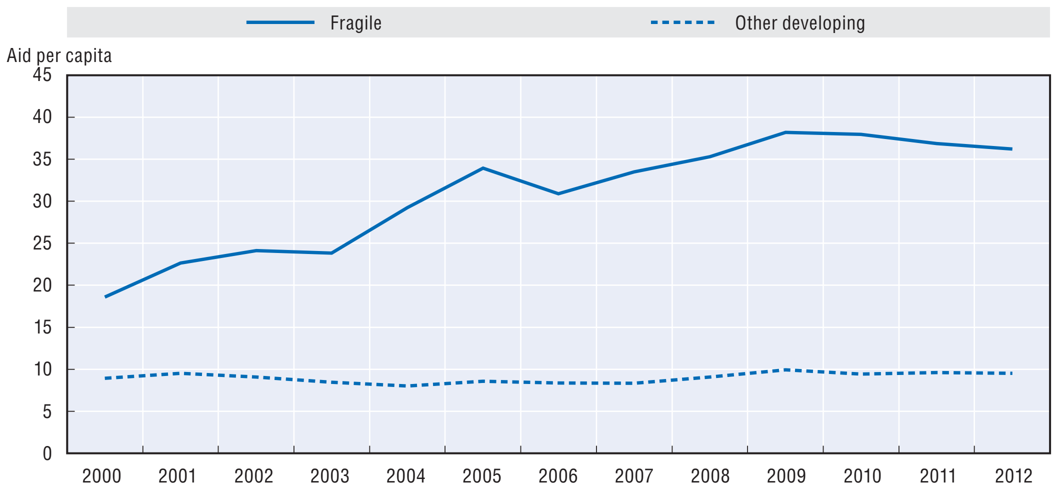
This trend reflects an international commitment to providing ODA to fragile situations where poverty is increasingly concentrated. Country programmable aid (CPA) to fragile states peaked in 2013. It is projected to exceed CPA to all other developing countries by 2017. Figures 3.2 (Q.4) and 3.3 (Q.4) 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*.

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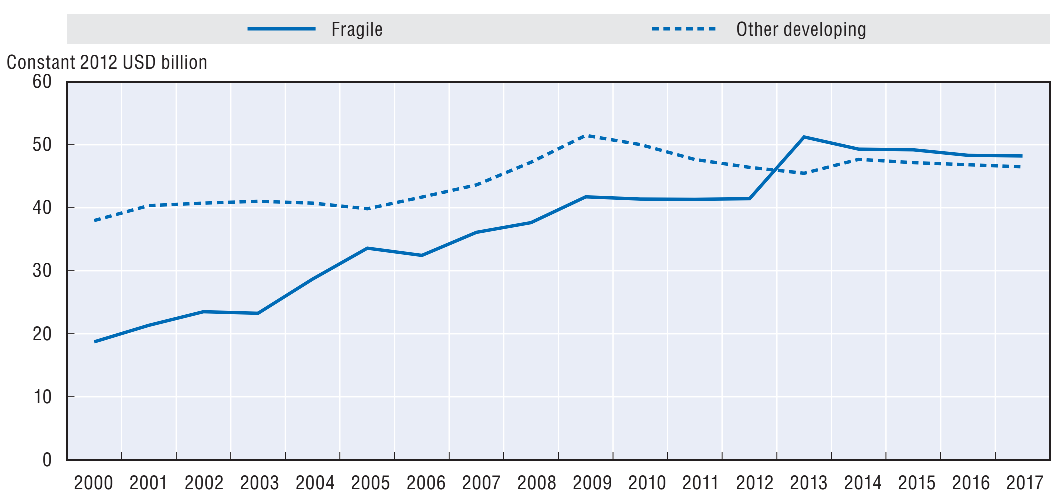
Figure 3.3. **(Q.4) Fragile states receive more country programmable aid**

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

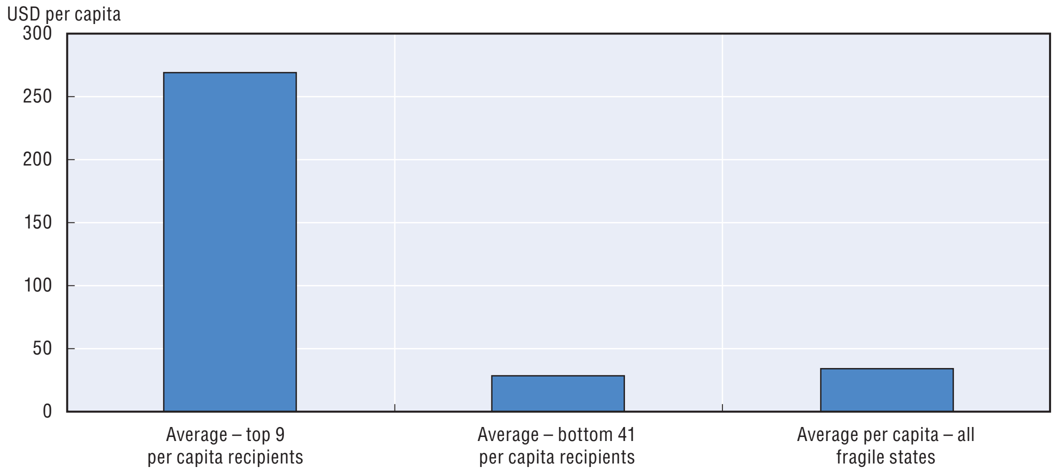
Source: Ericsson, F. and S. Steensen (2014), "Where do we stand on the aid orphans?", *OECD-DAC Development Brief*, OECD, Paris, available at: *www.oecd.org/dac/aid-architecture/Aid%20Orphans%20Development%20Brief.pdf*.

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".

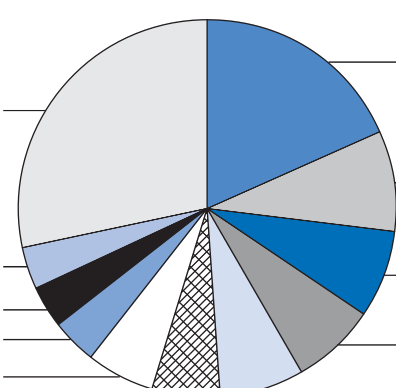
Foreign direct investment and other private financial flows are negligible in most fragile situations

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*.

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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).

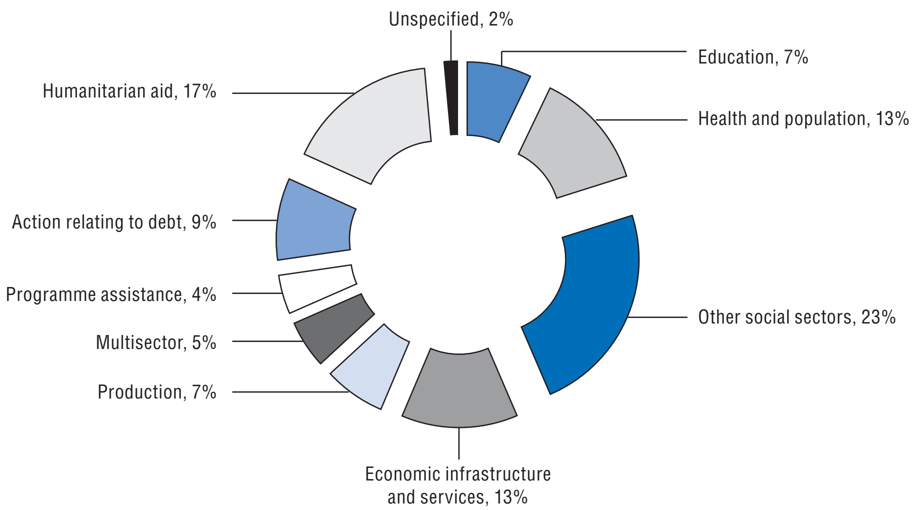
OECD donors tend to invest less in economic infrastructure and services across all fragile countries (13% versus 27% in other developing countries; see Figure 3.6 [Q.5]). As noted in Question 4, countries outside the DAC are beginning to fill this investment gap in infrastructure through a variety of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

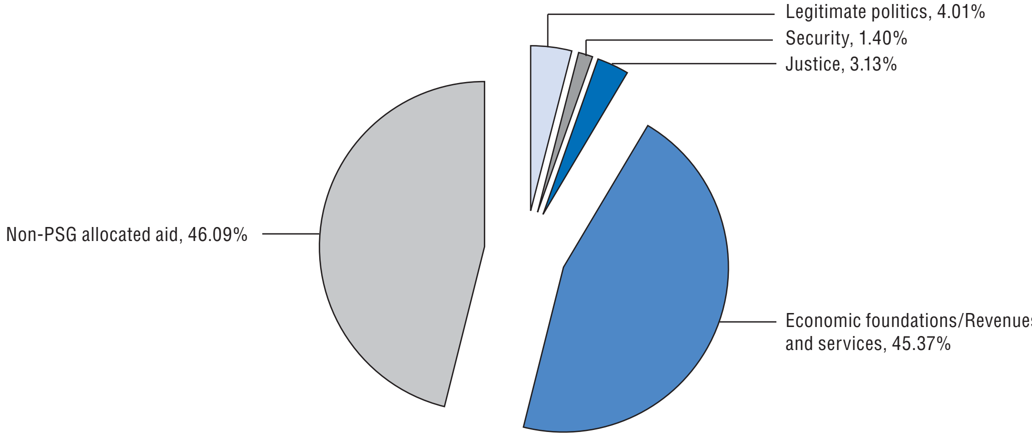
Official development assistance support for political reform, security and justice is low

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.

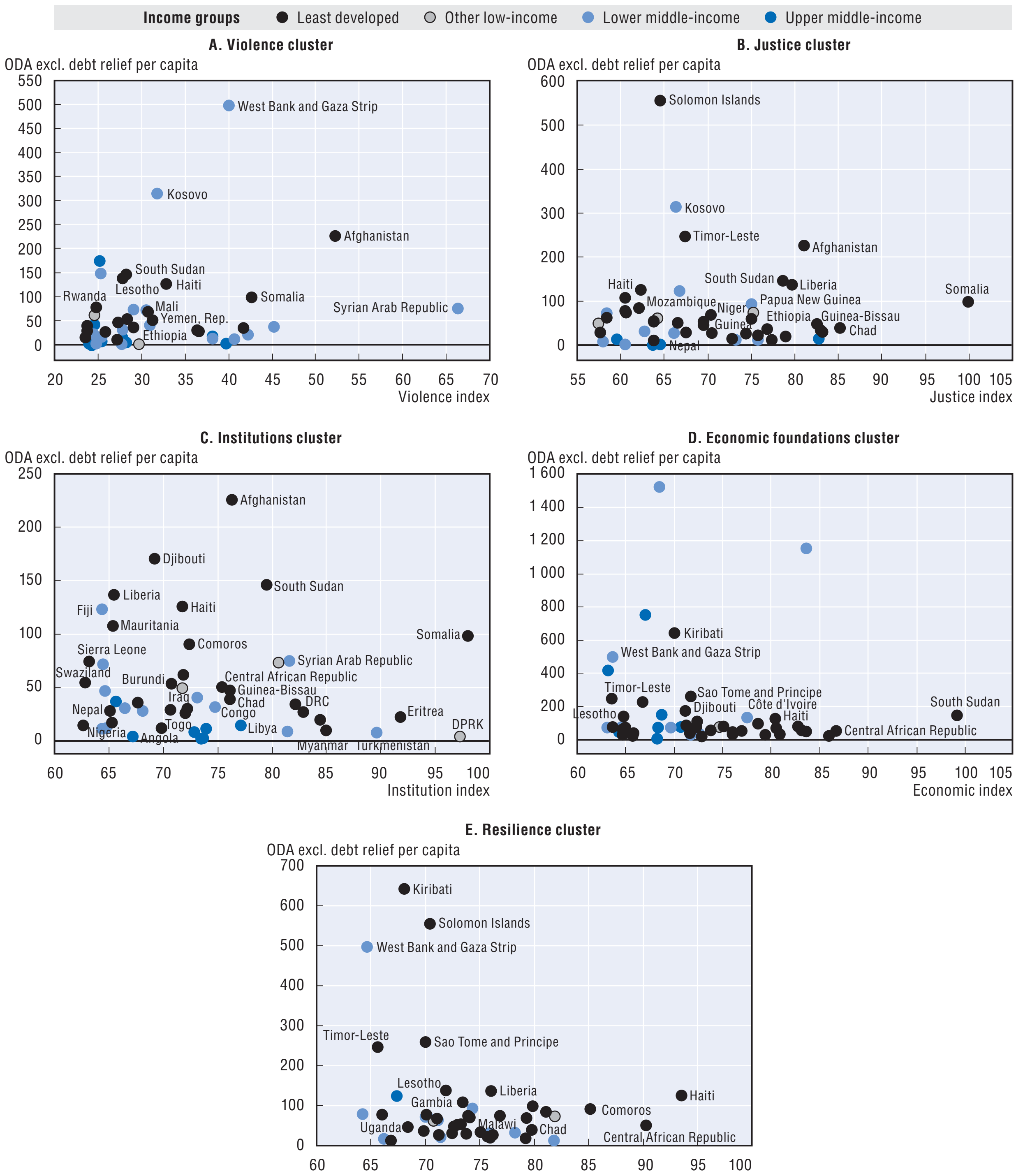
This is not to suggest that aid is the answer to all of these challenges. Rather, it is an attempt to understand what role aid may play among the resources a country has at its disposal to counter the risks and threats it faces.

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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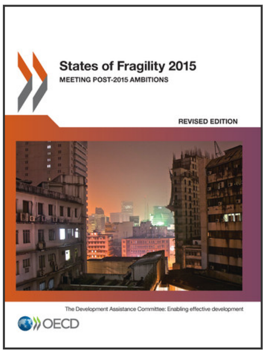

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