Natural disasters, financial crisis and fragile states: a bad situation made worse

Almost one-third of those surviving on less than a dollar a day live in fragile states – states that continue to suffer the cumulative effects of the food and oil price crises, and states that now find themselves hit by the global financial downturn. Given that at least 40% of revenues managed by fragile states consistently derive from external sources, development and humanitarian assistance have a vital role to play in countering these crises, preventing entrenched poverty as well as the real threat of escalating violence within and beyond national borders.

What is a 'fragile state'?

Fragile states are characterised by widespread extreme poverty, are the most off-track in relation to the Millennium Development Goals (MDGs), and are commonly caught in, or are emerging from, violence and conflict.

Exact definitions of what fragile states are can vary by donor and institution.

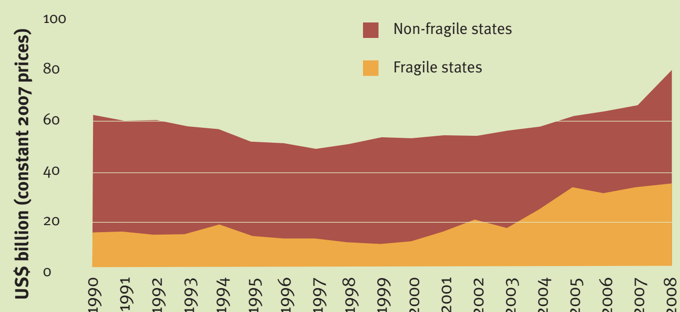
"*States are fragile when governments and state structures lack capacity – or in some cases, political will - to deliver public safety and security, good governance and poverty reduction to their citizens.*" OECD DAC, 2006

"*There are two categories of fragile states: vulnerable and in crisis. The former are those states unable or unwilling to adequately assure the provision of security and basic services to significant portions of their populations and where the legitimacy of the government is in question, this includes states that are failing or recovering from crisis. The latter are those states where the central government does not exert effective control over its own territory or is unable or unwilling to assure the provision of vital services to significant parts of its territory, where legitimacy of the government is weak or nonexistent, and where violent conflict is a reality or a great risk.*" USAID, 2005

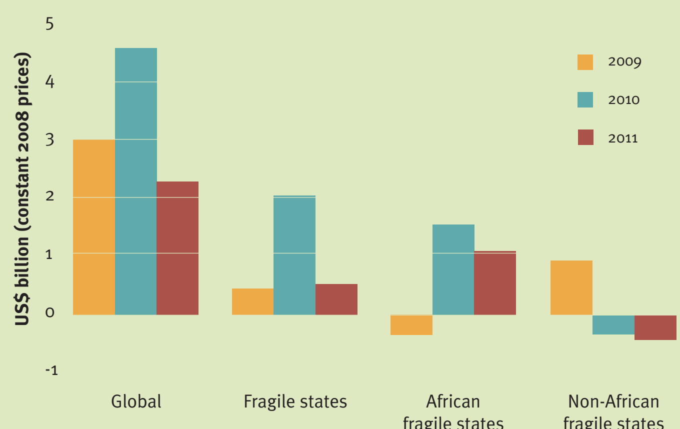
In this analysis, we consider 43 states as 'fragile'. Our list is based on the definitions and lists compiled by the World Bank (Country Policy and Institutional Assessment (CPIA) 2008), Brookings Institution (Index of State Weakness in the Developing World 2009) and Carleton University (Country Indicators for Foreign Policy (CFIP) 2008 index).

Aid is increasing for a few, but the outlook is worrying

Official development assistance (ODA) to fragile states increased in real terms by 8.7% in 2008 to US$33.2 billion, representing just over 30% of total global aid flows. However, over half of this benefited just six countries – Afghanistan, Ethiopia, Iraq, Palestine/Occupied Palestinian Territories (OPT), Sudan and Uganda. Aid concentration has increased over time. Ten fragile states – Angola, Equatorial Guinea, Eritrea, Guinea, Guinea-Bissau, Papua New Guinea, Sao Tome and Principe, Timor-Leste, Tonga and Yemen – saw lower ODA levels in 2008 in real terms compared to 2000. The outlook is also worrying: 22 fragile states, more than half of those considered in this analysis and the majority of them in Africa, are projected to have cuts in country programmable aid (CPA) in 2009, while Chad, Comoros, Côte d'Ivoire, Liberia, Palestine/OPT, Solomon Islands, Tajikistan and Togo are expected to see a fall of 20% or more by 2011.



Net ODA (excluding debt relief) to fragile states from DAC donors, 1990-2008 [Source: OECD DAC]



Changes in CPA, 2009-2011 [Source: Forthcoming DAC Report on Aid Predictability: Survey on Donors' Forward Spending Plans, OECD]

What links ODA, CPA humanitarian aid and development assistance?

While in many countries the longer-term, poverty-reducing and sustainable development assistance makes up the majority of ODA, humanitarian aid can form the bulk of ODA in some fragile states. Given that the year-on-year humanitarian aid has been substantial in these contexts, it suggests it is often doing more than the short-term, life-saving work that it was designed to support.

CPA is the aid that remains after deducting humanitarian aid and debt relief, imputed student costs, administrative costs, promotion of development awareness, research and refugees in donor countries, food aid and core NGO funding from ODA. In other words, it is the aid that partner countries can programme themselves.

An aid shock is where the difference in per capita ODA between two years is 15% or more of the recipient country's GDP per capita.

Photo: © CICR/KOKIC, Marko

Fragile states are most vulnerable to the effects of poor aid, but still get a bad deal

Despite their limited institutional capacity to manage resources, fragile states experience lower rates of aid predictability and higher volatility than other developing countries. Two-thirds of aid shocks between 1970 and 2006 occurred in fragile states. Some states with small economies, such as Kiribati, Guinea-Bissau and Sao Tome and Principe, have experienced multiple aid shocks with the differences in ODA levels between two years falling by as much as 125% of GDP.

Synchronising assistance with need is as crucial for these countries as any other – perhaps more so. However, assistance is often provided when states are unable to manage the resources, with aid at risk of tailing off just as capacity develops.

Aid under threat just as other financial sources are set to fall

These worrying trends are happening just as other key resource flows are being hit by the fallout of the global financial crisis. Remittance volumes to fragile states – greater than ODA flows – are expected to have contracted in 2009. Sub-Saharan Africa's dependence on remittances from the United States and Europe was already beginning to be felt in 2008, with growth rates at 7%, down from 58% in 2007. Absolute volumes of remittances to sub-Saharan Africa are expected to have fallen by 3% in 2009.

Falling government spending will exacerbate vulnerability: assistance is vital

Falls in per capita GDP growth were projected for 27 fragile states in 2009, with many others experiencing near stagnation. While domestic revenue collection in fragile states has been increasing, those in Africa, for example, are still several percentage points below the regional average. 21 of the 32 fragile states for which 2009 estimations are available are expected to see falls in government revenues (as a percentage of GDP), although a return to (low) growth is predicted for many in 2010.

Falls in growth and revenues will translate into reduced spending. The World Bank estimates that developing countries currently face US$11.6 billion gap in core spending – threatening cuts in key social spending. Fragile states, with minimal fiscal space to raise funds, constitute 58% of this gap. In the absence of external assistance, such cuts threaten to reverse human development gains, exacerbate vulnerability to further financial and climate shocks, and increase the risk of escalations of violence and conflict for millions of people who already face significant environmental and political insecurity.

Aid has a vital role in minimising the impact of this finance gap and the escalation of insecurity. It is therefore vital that the right decisions are made and that humanitarian aid works hand-in-hand with development.

This analysis is based on work undertaken by Development Initiatives for the OECD's forthcoming Resource Flows to Fragile and Conflict-Affected States, Annual Report 2010.