



# Policy Brief

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## Overview

Poor governance and lack of state capabilities in around 45 countries pose a threat to global security and development. The involvement of the international community is required to help these states break out of their low-development–high-conflict traps. Recent years have seen a number of notable initiatives, including a “New Deal on Fragile States” announced in November 2011 by the g7+ and their international partners. This Policy Brief casts some light on this New Deal from the perspective of the UNU-WIDER research project “Fragility and Development”.

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## *What is the (New) Deal with Fragile States?*

SOME STATES LACK THE CAPABILITY AND/OR THE willingness to progressively promote the shared development of their citizens and are particularly vulnerable to external shocks and internal conflicts. They have been described as “fragile states”. The poor governance and lack of state capabilities in around 45 fragile states<sup>1</sup> pose a threat to global security and development. Effective international partnerships are necessary to pull them out of low-development–high-conflict traps. The “New Deal on Fragile States” announced on 30 November 2011 at the Fourth High-Level Forum on Aid Effectiveness in Busan by the g7+ (see “The International Dialogue on Peace-building and State-building and the g7+” Box) is the most recent initiative to foster such partnerships.

In this Policy Brief, the New Deal is discussed from the perspective of a multi-year UNU-WIDER research project entitled “Fragility and Development”.<sup>2</sup> This project resulted in an edited book *Fragile States: Causes, Costs and Responses* published in August 2011 by Oxford University Press (see “*Fragile States: Causes, Costs and Responses*” Box).

### The Deal with Fragile States

Fragile states have over the past five years risen to the top of the international development agenda. Between 2005 and 2010 the share of people living in extreme poverty in fragile states doubled from 20 to over 40 per cent.<sup>3</sup> Twenty-two fragile states are classified as “chronically deprived countries” (CDCs), and no low-income fragile state has yet realized any of the Millennium Development Goals (MDGs).<sup>4</sup> Whereas fragile states did not feature in the development literature a decade ago, they are now a priority.

Despite differences over the label “fragile state” (some prefer “fragile situations”), the concept is now firmly established. The fragile states literature is growing: a recent resource guide<sup>5</sup> lists more than 240 documents on the topic—the majority published in the past five years.

There are two interrelated reasons for the growing concern about fragile states: security and development. After 9/11 it was clear that fragile states may threaten global security. Reducing this risk required the stabilization and development of fragile states. But how to do this was problematic: a reason for fragile states’

### **Fragile States: Causes, Costs, and Responses**

This Policy Brief takes the insights from this book and derives policy implications for the international community's engagement with fragile states, in light of the recent New Deal. It is available from Oxford University Press. (See <http://ukcatalogue.oup.com/product/9780199693153.do>)

"This book makes a valuable contribution to our understanding of fragile states in the contemporary world, which put people at risk and security under threat ... Such a volume of essays, on an unexplored theme, is particularly important as today's fragile states could turn into tomorrow's failed states" – **Deepak Nayyar**, Professor of Economics, Jawaharlal Nehru University, New Delhi, and Distinguished University Professor of Economics, New School for Social Research, New York.



neglect was that foreign aid was believed to be less effective in states where good governance was lacking. Hence fragile states were not seen as having sufficient capacity to absorb and use foreign aid, and that such aid would be wasted. Basically the global community faced a catch-22 situation: without capacity, legitimacy and authority fragile states could not absorb and use international financial assistance; but without this, they may remain stuck in a development trap making further assistance and incorporation into the global economy even more difficult.

In recent times a number of initiatives have been taken by the international community to help fragile states. Milestones include the establishment of the Fragile States Group (2003), the Paris Declaration on Aid Effectiveness (2005), the OECD's "Principles for Good International Engagement in Fragile States" (2007), the Accra Agenda for Action (2008) and the establishment of the International Network on Fragility and Conflict (2009). In November 2011 the Fourth High-Level Forum on Aid Effectiveness (HLF4) produced the New Deal on Fragile States. The first *European Report on Development* (2009) and the *World Development Report 2011* dealt with state fragility and conflict.

Before discussing the New Deal it should be mentioned that as these initiatives progressed an increase in aid flowing to fragile states was witnessed (aid to fragile states now accounts for around a third of all aid); the adoption of specific aid strategies for fragile states by some donor countries such as the Netherlands and the UK; and a steady improvement in the performance ratings of World Bank projects in fragile states.<sup>6</sup> In addition, scholars made progress in terms of identifying fragile states and their vulnerabilities,

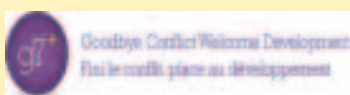
### **The International Dialogue on Peace-building and State-building and the g7+**

The International Dialogue on Peace-Building and State-Building (IDPS) is an outflow of the Accra High-Level Forum on Aid Effectiveness (HLF3) held in September 2008. It aims to promote dialogue between fragile states and their international partners (see [www.oecd.org](http://www.oecd.org)).

The first IDPS was held in Dili, Timor-Leste in April 2010. Here, a group of 19 fragile states formed the g7+ in order to provide (i) a united global voice for fragile states; (ii) better partnerships and ownership in development co-operation; and (iii) policy advice. At the Fourth High-Level Forum on Aid Effectiveness (HLF4) in Busan, the "New Deal on Fragile States" was presented.

The g7+ members are: Afghanistan, Burundi, Central African Republic, Chad, Côte d'Ivoire, The Democratic Republic of the Congo, Ethiopia, Guinea, Guinea Bissau, Haiti, Liberia, Nepal, Papua New Guinea, Sierra Leone, The Solomon Islands, Somalia, South Sudan, Timor-Leste and Togo.

For more information see <http://www.g7plus.org/>





in evaluating the impact of foreign aid on development, and in understanding the risks faced by donors in fragile states. When concerns with fragile states started to surface after 2001 there was a widespread view, based partly on cross-country regression analyses, that foreign aid does not have a significant positive impact on economic growth if good governance is lacking. In the meantime, however, more carefully designed studies detected a positive, albeit small, impact

Another policy implication is that the initial focus on low-income countries as fragile states should be broadened. Many fragile states are not low-income countries anymore. Since 2000 some 27 countries graduated from low-income to middle-income status. Economic growth is not a panacea for fragility. In fact, 23 per cent of the world's poor was estimated in 2007/08 to reside in fragile and conflict-affected states of which already 11 per cent were in middle-income countries. Many of

## “Economic growth is not a panacea for state fragility”

of foreign aid.<sup>7</sup> In our book, *Fragile States*, Mark McGillivray argues that aid does not only affect growth but can prevent instability and conflict, improve human rights, and prevent or limit negative spillovers to neighbouring countries.

An important policy implication from this new evidence is therefore that foreign aid matters for fragile states. Efforts at improving aid efficiency and managing aid in high-risk environments are important. However, more is required. Thinking about foreign aid and development over the past 60 years has “gone full circle” in that “aid is not a prime mover of development but only a catalyst”.<sup>8</sup> To be a catalyst requires that aid focuses on more than just economic growth; that peace-building and state-building be pursued as interdependent objectives; that ownership, harmonization and pragmatism are essential; and that the role of new actors in international development (such as the BRICS) and new challenges (such as climate change) should be taken into consideration.

these countries are extremely vulnerable to external or internal disturbances. The focus on fragile states in development co-operation and in the New Deal should therefore not only be on low-income countries.

Furthermore, as is argued in the book *Fragile States*, we need forward-looking measures of state fragility in order to be better able to prevent states from becoming fragile. Most measurements of fragile states tend to be static, *ex post* definitions. To develop more predictive measures we need to better understand the measurement and management of vulnerability. There is a close relationship between state fragility and vulnerability: states which are vulnerable to poverty or external shocks are more fragile, and that fragility is often a factor which raises households' vulnerability to poverty, natural hazards and economic shocks. Hence a key part of the UNU-WIDER project, “Fragility and Development”, was concerned with vulnerability and resilience in developing countries (see “Vulnerability in Fragile States” Box).

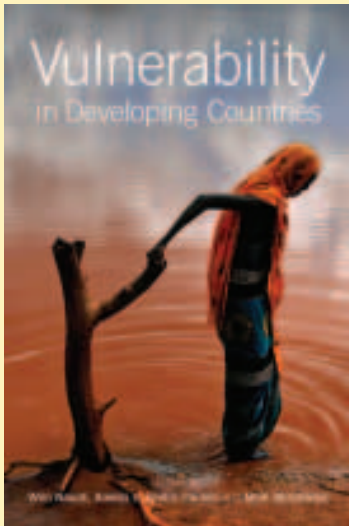
### About the Author

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### Vulnerability in Fragile States

Around a billion people live in extreme poverty—around a third of these in the world’s fragile states. Many face the risk of never escaping from poverty. These risks are exacerbated by natural hazards, ill-health, and macroeconomic volatility. Consequently, vulnerability has become a defining challenge facing fragile states. Hence there is a need to better understand, measure, and predict vulnerability in fragile states where people do not have the same bulwarks against risks. This volume addresses this need by focusing on critical dimensions of vulnerability such as the relationship between poverty and vulnerability, and vulnerability arising from ill-health and external shocks. It showcases a variety of methodologies, which offer new perspectives on the use and relevance of the notion of vulnerability in economic development.

*Vulnerability in Developing Countries* discusses these issues further and is available from United Nations University Press (see <http://unu.edu/publications/books/2000-2009/vulnerability-in-developing-countries>)



“[U]nderstanding the determinants of vulnerability is at the cutting edge of poverty research and policy. This volume is a most timely contribution to helping understand how households, economies and states in the developing world are affected by risks and shocks, and what coping mechanisms might help to mitigate this vulnerability” — **Stephan Klasen**, Professor of Economics and coordinator of the Courant Research Center Poverty, Equity, and Growth in Developing and Transition Countries, University of Göttingen.

### The New Deal with Fragile States

In the New Deal the g7+ and its partners aim to give content to the international dialogue on peace-building and state-building (IDPS).<sup>9</sup> In particular, the countries agreed to (i) set goals and indicators for peace-building and state-building; (ii) establish country-led and country-owned plans based on joint fragility assessments and participatory political dialogue; and (iii) strengthen the partnership between fragile states and donors, emphasizing accountability by states and better risk management of aid by donors.

The New Deal contains five goals for peace-building and state-building, namely the promotion of:

- legitimate politics;
- security;
- justice;
- economic foundations; and
- revenues and services.

#### *Legitimate Politics*

Fragile states lack legitimate political processes and systems to “bring state capacities and social expectations into equilibrium”.<sup>10</sup> The emphasis on legitimate politics in the New Deal is therefore not new. However, the g7+ does have the opportunity to link legitimate politics to the opposite of a “fragile” state, namely a “developmental” state. This is an aspect that is taken up in *Fragile States* where it is argued that there are many sources of legitimacy—not only contestable elections. Given the inter-relatedness of development and security concerns in fragile states, the pursuit of a “developmental” state should be a guiding principle.

A developmental state “has (or develops) the capacity to implement economic policies that effectively deliver development, which in turn gives it legitimacy”.<sup>11</sup> Ultimately,

however, sustaining legitimacy will be difficult without democracy (contestable elections), as this provides social anchoring of policies and methods to avoid violent conflict over scarce (or abundant) resources. In *Fragile States*, Ghassan Dibeh focuses in particular on the absence of such “social anchoring” in Iraq and Somalia as a cause of widespread predation and conflict over resources. The lessons he draws for

In Chapter 5 of *Fragile States* Lisa Chauvet, Paul Collier and Anke Hoefler estimate the costs of a failing state to be around US\$276 billion per annum. These costs may justify that their national sovereignty be overridden by international intervention. Similarly Mansoob Murshed and Philip Verwimp argue in Chapter 8 for international intervention and mediation to achieve security. How the g7+ will deal

## “Violent conflict is often due to the very existence of state sovereignty”

legitimizing politics is particularly relevant as around 60 per cent of all fragile states are resource-rich economies, and subject to the “natural resource curse”. The g7+ would need to prepare for the challenges posed by resource abundance, given that growth and trade in developing countries will, in coming years, largely be driven by the commodity markets.

### *Security and Justice*

The humanitarian, developmental, and economic costs of conflict and state fragility are substantial. Hence the primary international response towards fragile states has justifiably been security oriented. The New Deal is thus not so new in this respect. While the g7+ is to work out the details, there are two aspects where new approaches are needed. The first is the imperative for international intervention in fragile and failing states, and the second is the need for balance between development and security (and justice).

with the need and rationale for such intervention is to be seen: the concept of national sovereignty is a sensitive one—but also one that is increasingly outdated. As has become quite evident in recent times, “Problems of local or global governance, including violent conflict within and between states, can be ascribed not merely to the faulty exercise of state sovereignty but to its very existence.”<sup>12</sup>

Where the g7+ is perhaps more likely to facilitate a new approach is towards balance between security and development. There is a security bias in the international community’s engagement in fragile states.<sup>13</sup> Legitimacy and security cannot be sustainably promoted unless more is done to raise human welfare, through for instance job creation and service delivery. And unless this is done in a manner that promotes a shared society, it is unlikely to provide justice in countries where incomes and wealth are often very unequally distributed. This provides

the context for the third New Deal goal, namely the establishment of adequate economic foundations.

#### *Economic Foundations*

The World Bank stresses in its 2011 *World Development Report* that unemployment is by far the single most important motivation for youths to join rebel groups or gangs, and that poverty and injustice are amongst the most sig-

programmes that donor countries routinely support. Can the New Deal rectify this? The task of g7+ here is complicated because it is not clear which aspects of PSD work and which do not work—rigorous impact evaluations of such programmes, particularly in fragile states are lacking. More research is needed on the relationship between entrepreneurship, security and governance in fragile states.

## “Getting firms in fragile states to partake in global value chains should be a priority”

nificant causes of conflict. The New Deal document does not contain much detail on how the g7+ and its partners will or should approach the goal of lowering unemployment, except for mentioning the need for job creation and sustainable livelihoods. Given concerns on the imbalance between security and development, it is in the area of job creation and sustainable livelihoods that a new deal is urgently needed. The fact is that most new jobs in fragile states will have to be created by the private sector. Governments lack the capacity to absorb the large numbers of young job-seekers that enter their labour markets every year.

Private sector development (PSD) should therefore become a priority in fragile states. PSD instruments include measures aimed at business environment reform, provision of business development services, support to value chain development (VCD), training and capacity building of entrepreneurs and managers, provision of credit, and improvements in economic infrastructure. The problem is that there is no fragile state specificity in typical PSD

One further aspect that is often neglected is the integration or reintegration of fragile state small businesses and small farmers into global value chains—less than 4 per cent of total foreign aid is aimed at improving developing countries’ positions in global value chains.<sup>14</sup> The latter has been fragmented over the past three decades as part of multinational enterprises’ global outsourcing activities. As a result, economic foundations in fragile states cannot be based on possible labour cost advantages but will have to be based on upgrading the capabilities of its producers to link into global value chains. The partnership approach inherent in the New Deal may facilitate this.

#### *Revenues and Services*

Finally, the New Deal recognizes the need for more resources. The need is two-fold: (i) to raise more domestic revenue, and (ii) to improve the efficiency of foreign aid. In this regard Sanjeev Gupta, in Chapter 10 of *Fragile States*, discusses the macroeconomic implications of aid flows for fragile states,



including accountability—an aspect also noted in the New Deal. Accountability, as well as raising more domestic revenue, will benefit from the implementation of medium-term expenditure frameworks. Currently, increasing domestic revenue and constructing expenditure frameworks are beyond the capabilities of many fragile states, and remain areas wherein the international community can, especially in the context of the New Deal, provide invaluable assistance.

### Concluding Remarks

Fragile states deserve to be at the top of the international development agenda. The last couple of years have seen a number of important initiatives taken in this regard. Recently, the G7+ and their international partners announced a “New Deal on Fragile States”. In this Policy Brief this New Deal has been discussed from the perspective of the UNU-WIDER project “Fragility and Development”. The New Deal, as an instrument to strengthen partnerships and ownership in peace-building and state-building, is to be welcomed. Although there is much in the new deal that is not new and some areas of potential neglect (particularly regarding the private sector), the emphasis on partnership and ownership offers an opportunity to rebalance the international community’s co-operation with fragile states in a manner that is more oriented towards development, job creation, and engagement with state actors.

### Notes

1. A list of 45 countries deemed fragile is contained in OECD (2011) *Ensuring Fragile States Are Not Left Behind: 2011 Factsheet on Resource Flows in Fragile States*. Paris: OECD.
2. See [http://www.wider.unu.edu/research/projects-by-theme/development-and-finance/en\\_GB/fragility-and-development/](http://www.wider.unu.edu/research/projects-by-theme/development-and-finance/en_GB/fragility-and-development/)
3. See Chandy, L. and G. Gertz (2011) “Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015”, Policy Brief 2011-01, The Brookings Institution, Washington, DC.
4. See “Facts and Figures”, in World Bank (2011) *World Development Report 2011*. Washington, DC: The World Bank.  
Available at: <http://wdr2011.worldbank.org/early-findings>
5. See McLoughlin, C. (2011) *Topic Guide on Fragile States*. Birmingham: Governance and Social Development Resource Centre, International Development Department, University of Birmingham.
6. See Chandy, L. (2011) “Ten Years of Fragile States: What Have We Learned?”, Policy Paper 2011-12, The Brookings Institution, Washington, DC.
7. See Arndt, C., S. Jones and F. Tarp (2010) “Aid, Growth, and Development: Have We Come Full Circle?”, UNU-WIDER Working Paper, No. 2010/96.  
Available at: [http://www.wider.unu.edu/publications/working-papers/2010/en\\_GB/wp2010-96/](http://www.wider.unu.edu/publications/working-papers/2010/en_GB/wp2010-96/)
8. See Pronk, J.P. (2003) “Aid as a Catalyst: A Rejoinder”, *Development and Change* 34(3): 383–400.
9. The New Deal document is available at <http://www.g7plus.org/new-deal-document/>
10. See Menocal, A.R. (2010) “State-Building for Peace: A New Paradigm for International Engagement in Post-Conflict Fragile States?”, *EUI Working Paper*, No. 2010/34.
11. See UNCTAD (2007) *Economic Development in Africa 2007: Reclaiming Policy Space, Domestic Resource Mobilization and Developmental States*. New York and Geneva: United Nations.
12. See Brauer, J. and R. Haywood (2009) “Entrepreneurship, Violent Conflict and Sovereignty”, WIDER Angle e-newsletter, May.
13. See Overseas Development Institute (ODI) (2011) “Getting Better Results from Assistance to Fragile States”, Briefing Paper No. 70, Overseas Development Institute, London.
14. See Prowse, M. (2005) “Aid for Trade: Enhancing Trade Capacity in Poor Countries”, ID21 Insight No. 59, Institute of Development Studies (IDS), Brighton.



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**INSIDE:**

## Policy Brief

### *What is the (New) Deal with Fragile States?*

The New Deal for Fragile States is an opportunity to rebalance the international community's co-operation with fragile states to be more oriented towards development, job creation and engagement with state actors.

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