

Foreign Aid to Fragile States: How effective does it work?

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I. Introduction

Fragility is one of the major concerns for the international community to meet the global development goals. In specific, countries in fragile and conflict-affected situations become a key issue. Fragile states suffer not only from poverty and hunger, but also insecurity in human rights and social protection. In addition, the impacts of conflicts, disasters, pandemic, and terrorisms are greater in fragile and conflict-affected countries due to their vulnerabilities. These vulnerabilities and fragilities affect other countries' security and hinder the world from achieving the Sustainable Development Goals (SDGs). Therefore, international communities have begun to pay attention to solving fragility within countries, and have continuously expanded the volume of development aid to fragile states. However, the effectiveness of aid in fragile states has not been clearly established.

As the OECD indicated the fragility that each country faces is multidimensional in its States of Fragility report published in 2015, vulnerabilities under fragile and conflict-affected situations cannot be resolved through the sole solution of ODA.

Furthermore, with the adoption of the SDGs, the international society has recognized the significance of securing peace and enhancing development effectiveness in fragile states. Therefore, the international community is overhauling related policies and devising strategic approaches to provide support towards fragile states going beyond humanitarian purposes. The Humanitarian-Development-Peacebuilding (HDP) Nexus, also known as the triple nexus, emerged under such a context to consolidate humanitarian aid, development cooperation, and peacebuilding activities in a comprehensive way. The triple nexus could contribute to the improvement of development effectiveness in fragile and conflict-affected situations and help them to build resilience and capacity to properly cope with the current risks and future crisis, and also finally respond to fundamental vulnerabilities that impede sustainable development.

Korea has put much effort into providing aid for fragile states in efficient and effective ways. As a part of such efforts, Korea established the Fragile States Assistance Strategy in 2017. However, there is still room for improvement in terms of the

effectiveness of Korea's ODA implementation under fragile and conflict-affected situations. Accordingly, the study aims to suggest policy suggestions for Korea's development cooperation in fragile states by comparing and analyzing the current status, policies, and characteristics of aid to fragile states in major donor countries, including Germany, Australia, Denmark, and Japan. In addition, we review Korea's case and draw policy implications to tackle the remaining challenges.

II. Case Study

Major donors have adopted a whole-of-government approach, establishing a cooperation system between ministries in charge of development cooperation with national security when providing support to fragile states. This indicates that donors recognize the necessity of aid to fragile states goes beyond the sphere of development cooperation.

Germany

As the third largest donor, Germany takes a systematic and whole-of-government approach to promote effective development in cooperation for fragile and conflict-affected situations. Germany operates intergovernmental networks between the BMZ (Federal Ministry for Economic Cooperation and Development), Federal Foreign Office, Federal Ministry of Defence, and Federal Ministry of the Interior to support the fragile countries in comprehensive and effective ways.

In addition, the implementing aid agencies, such as GIZ and KfW, take advantage of guidelines of project planning, and performance management

schemes in areas affected by severe conflicts. The guidelines categorize the conflict dynamics into three phases – latent conflict, violent conflict, and post-conflict situations – and provides different objectives and approaches of development cooperation activities by each phase. To realize the “do no harm” principle under fragile and conflict-affected contexts, Germany utilizes the Peace and Conflict Assessment (PCA). Through the PCA, aid agencies systematically consider and reflect fragility during every stage of the project cycle when implementing development cooperation projects.

Australia

When it comes to tackling vulnerabilities within fragile states, Australia emphasizes the aid effectiveness in fragile and conflict-affected situations through the improvement of governance and understanding of the local contexts. Also, the Australian government more focuses on economic, environmental, and social fragilities over conflict-related ones. Thus, the government mostly provides supports to countries in order to enhance resilience regarding the aforementioned vulnerabilities.

The government particularly concerns itself with the negative impacts on national security. Thus, the government provides aid to fragile states with an aim to minimize the harmful influences caused by the increase of fragile and conflict-affected countries on Australia such as by providing support for counter measures against infectious diseases. In this regard, Australia concentrates its aid for fragile states on surrounding nations with vulnerabilities, mainly small island developing countries (SIDS) in the Indo-Pacific region, to overcome potential fragilities.

Denmark

Most of the top partner countries of Denmark are classified as fragile states. The Danish government has publicly announced that supporting fragile and conflict-affected countries, mainly in Africa, is its priority for development cooperation. When implementing stabilization activities in conflict-affected states, the causes of conflicts should first be identified through ex-ante common analysis of causes of conflict, and activities should be planned based on the identified causes. Danish country partnership policies analyze the characteristics and aspects of fragilities that each country has.

Furthermore, the Danish government implements a whole-of-government policy for aid to fragile states known as “integrated stabilization engagement” through cooperation between the Ministry of Foreign Affairs, Ministry of Defence and Ministry of Justice. In line with the policy, the government established the Peace and Stabilization Fund (PSF), which is an intergovernmental funding scheme to support stabilization and conflict prevention activities. The government is responding to the development needs of countries in fragile and conflict-affected situations in a quick and flexible way through the Fund.

Japan

As its volume of aid to fragile states continues to expand, Japan has become the fourth largest donor after the United States, United Kingdom, and Germany. The Japanese government takes an inclusive approach to guarantee human security when supporting fragile states. On the one hand, the government emphasizes enhancing the capacity of institutions and human resources of fragile states, while supporting efforts to establish the states’ national legitimacy. On the other hand, the government provides aid to help people sustain their economic and social lives, thus lowering the risk factors by maintaining public security and access to public services.

The government established a guideline on peacebuilding and development linked to the SDGs, focusing on human security, a guiding principle for Japanese development cooperation since 2015. Based on the guideline, Japan supports activities to simultaneously build the capacity of governments and local communities in fragile states. In addition to supporting efforts to enhance resilience in conflict areas in Africa and Latin America, the government has expanded its development cooperation activities to provide support for various fragilities brought on by natural disasters and climate change, etc.

Table 1. Summary of Donors’ Aid to Fragile States

Features	Germany	Australia	Denmark	Japan
Common Features	➤ Whole-of-government approach ➤ Policy/Strategy for aid to fragile states			
Different Features	- Systematic approach based on project management tool (e.g. Peace and Conflict Assessment Tool)	- Concentrates support on neighboring small island developing countries - Mainly supports economic, social, and environmental vulnerabilities	- Sets the improvement of fragilities and conflict prevention as one of the main objectives in development cooperation - Ex-ante assessment on cause of conflict	- Human security - Expansion of support to fragilities regarding natural disaster and climate change other than conflicts

Source: Authors’ Summary.

III. Empirical Analysis of the Impacts of Aid to Fragile States

The study conducts an empirical analysis to show the impact of foreign aid to fragile states on indicators for development, peace, and economic growth. Existing literature analyzes the impact of overall aid on restricted indicators such as economic growth, leading to certain limitations on showing the causal relationship between aid to fragile states and their development. Going a step further beyond this limitation, the study estimates the causal relationship between aid for fragile states and indicators associated with development and peace, rather than economic growth. Furthermore, the empirical analysis tries to show the impacts of aid for fragile states more in detail by type of aid, sectoral allocation, and different phases of conflicts. Using gross aid disbursement data from the OECD Credit Reporting System (CRS) statistics and other various sources, we construct panel data. To estimate the effects of aid for fragile states, system-GMM is used.

The analysis shows that project aid has the most positive impacts on economic growth and sectoral development indicators. In particular, the analysis indicates that project aid and food aid have positive effects on economic growth and the water supply and sanitation sector under conflict situations. Under post-conflict situations, project aid, food aid, and technical assistance have positive impacts on reducing countries' fragilities. The estimation shows that if project aid for the water supply and sanitation sector to GDP per capita increases by 1%, rate

of access to drinking water increases by 0.6–1.2 Standard Deviation (SD).

The estimates represent that budget support or program aid has negative or no impacts on improving the vulnerabilities of fragile states. This is because the results of program aid or budget support are influenced by the capacity of governments, and weak governance by fragile states might deteriorate the impacts of the aid, which coincide with the existing literature. However, careful approaches are needed to interpret and apply the results, since recent program aid is provided with technical assistance for governance to improve human and institutional capacities.

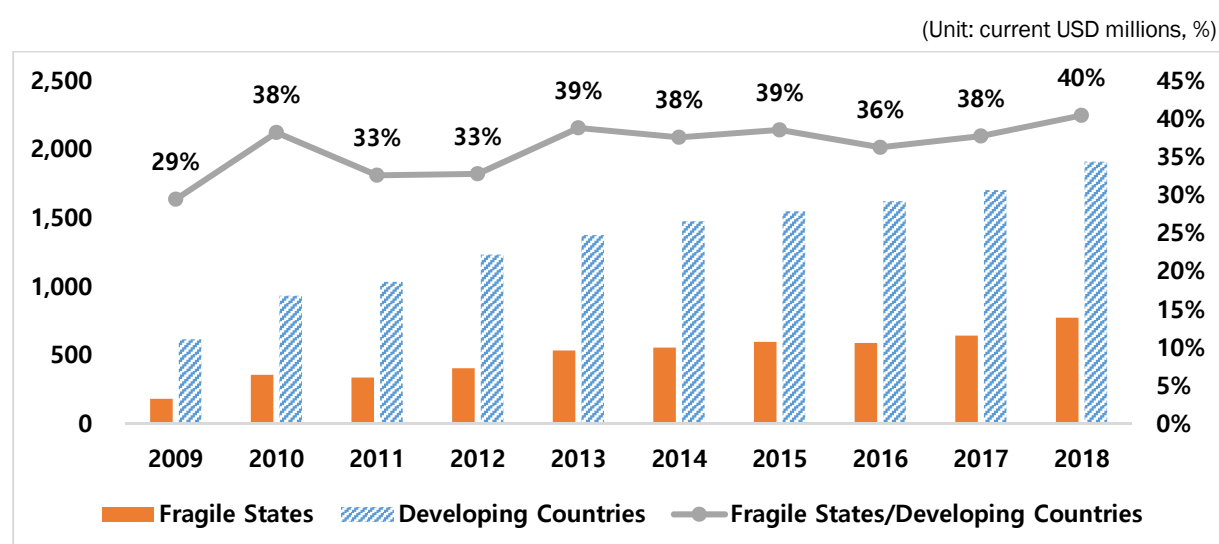
IV. Korea's ODA to Fragile States

Korea has expanded its volume of aid to fragile states as its total aid disbursement has been increased. In spite of an increase in its aid to fragile states, and the majority of top partner countries are classified as fragile states according to the OECD Classification, only a small amount of aid goes to conflict-affected areas except for Afghanistan. Furthermore, Korea lacks a systematic approach to consider the vulnerabilities and characteristics that each country in fragile and conflict-affected situations has. Korea established its Assistance Strategy for Fragile States in 2017. The strategy is based on a whole-of-government approach, but an effective cooperation system has not yet been constructed to coordinate with relevant ministries other than those in charge of development cooperation.

Throughout the project cycle, Korea faces hardships in project implementation and results management in fragile and conflict-affected countries due to weak fragility analysis. In the case of 24 Korea's priority countries, there is not much difference between the respective Country Partnership Strategy (CPS) regarding budget allocation for countries in fragile and conflict-affected situations and countries not in such situations. Also, the current system is insufficient to incorporate considerations regarding fragilities based on systematic analysis into

the CPS. Another difficulty for implementing projects in fragile states is the lack of interlinkages between policies such as the Fragile States Assistance Strategy, Humanitarian Assistance Strategy, and the CPS for fragile states. The poor enabling environment for fragility analysis and consideration of vulnerabilities makes it harder for Korea to effectively implement aid projects at all stages of the project cycle – identification, planning, and monitoring and evaluation.

Picture 1. Trends in Korea's Aid to Fragile States



V. Policy Implications

This study suggests following five policy implications for improving the effectiveness of Korea's aid for fragile states.

First, it is requisite for Korea to consolidate the whole-of-government approach and reciprocal coordination mechanism to support fragile states

for overcoming fundamental causes of fragilities. Countries in fragile and conflict-affected situations face various vulnerabilities, such as climate change and refugees, in addition to others related to poverty, peace and security issues. Therefore, it is necessary to take an inclusive approach because aid for fragile states plays an important role in building peace and security beyond development and to achieve the 2030 Agenda.

Second, Korea should choose proper types of aid and sectoral aid allocation suitable for overcoming vulnerabilities and development challenges efficiently and effectively in fragile and conflict-affected states. Even though empirical analysis proves that program aid has negative or no impacts, the international society emphasizes the use of budget support or multi-bi aids based on local institutions other than project-type aid due to the multiple difficulties in conflict-affected environments. Considering this, Korea could connect its existing individual project-based approach with multi-bi aid programs from the early phase to effectively implement and manage the project. Also, it is desirable to implement technical assistance for institutional capacity-building efforts taking place within partner countries simultaneously.

Lastly, the Korean government should conduct a fragility analysis and manage projects systematically. The integrated strategies should be established by reflecting characteristics of fragility and the particular development needs faced by each country in fragile and conflict-affected environments. As Korea is putting together the 3rd Mid-term Strategy for Development Cooperation and the CPS for 2021-2025, the strategies should adopt integrated approach and reflect identified fragilities through strong fragility analysis to improve the development effectiveness of Korea's aid in fragile states. It would also be helpful to construct a mechanism that could manage the results of the projects and risks based on systematic fragility analysis. **KIEP**

References

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