FINANCING IN FRAGILE CONTEXTS

Cushla Thompson

OECD DEVELOPMENT CO-OPERATION WORKING PAPER 88

Authorised for publication by Jorge Moreira da Silva, Director, Development Co-operation Directorate

OECD
BETTER POLICIES FOR BETTER LIVES

December 2020

Working Paper

Please cite this paper as Thompson, C. “Financing in fragile contexts”, OECD Development Co-operation Working Papers, No 88, OECD Publishing, Paris.

Abstract

The volume, quality, and political economy of financing – where, how and to whom resources flow – can impact significantly on socio-economic opportunities and incentives towards stability or conflict.

Many fragile contexts have slowly been expanding their financing options and economic linkages. But these linkages can bring both opportunities and risks, as the COVID-19 pandemic makes starkly clear. This paper presents trends, lessons learned, and key data on financing in fragile contexts, including government revenues, private investment, remittances and private philanthropic giving.

Drawing on the OECD multidimensional fragility framework, this paper offers insights into the state of financing in fragile contexts, its links to the dimensions and drivers of fragility, and current risks and opportunities. This paper is part of a broader OECD work-stream on Financing for Stability and is one of ten working papers contributing to *States of Fragility 2020*.

Acknowledgments

This paper was written by Cushla Thompson (Economist and Policy Analyst, GPP/DCD) based on a range of financial data, literature and case studies. It was prepared with oversight by Paloma Durán y Lalaguna (Head of Division, GPP/DCD) and Cyprien Fabre (Team Leader, GPP/DCD), under the leadership of Jorge Moreira da Silva (Director, DCD).

The paper has received valuable input from members of the Crises and Fragility team of the Global Policies and Partnerships Division at the Development Co-operation Directorate of the OECD, alongside insights from the International Network on Conflict and Fragility (INCAF) and the States of Fragility 2020 reference group. This is a background paper to *States of Fragility 2020*, co-ordinated by Jonathan Marley (Policy Analyst, GPP/DCD).

The paper was kindly peer reviewed by Jieun Kim (FSD/DCD), independent consultant Lydia Poole, and Joseph Stead (GRD/CTPA). Additional inputs were gratefully received from Catherine Anderson, Rebecca Engebretsen and Marc De Tollenaere (all from GPP/DCD), and from Juan Casado Asensio (FOR/DCD). Thanks go to Susan Sachs for editorial services, and to Stacey Bradbury for support through the publishing process. Thank you to Elena Bernaldo de Quirós, Tomas Hos and Aimée Nichols (all from FSD/DCD) for their statistical support.

The author would like to thank all those who supported the work by generously sharing their insights and experiences.

Table of contents

Figures

Boxes

Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
CRS	Creditor Reporting System
DAC	Development Assistance Committee (OECD)
DRM	Domestic resources mobilisation
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
HDP	Humanitarian-development-peace
NGO	Non-governmental organisation
ODA	Official development assistance
OOF	Other official flows
OECD	Organisation for Economic Co-operation and Development
PFM	Public financial management
SDG	Sustainable Development Goal
UN	United Nations

Executive summary

The volume, quality, and political economy of financing – where, how and to whom resources flow – can impact significantly on socio-economic opportunities and incentives towards stability or conflict. Financing is closely, but not exclusively, linked to the economic dimension of fragility. It also has knock-on impacts in the environmental, political, security and societal dimensions of fragility through investments in social safety nets and human capital; the ability to respond to climate change, disasters and other climactic events; the growth of equality or inequality; and the ability of elites to sustain power structures.

This paper analyses trends in financial flows to the 57 fragile contexts on the 2020 OECD fragility framework. It is presented as a background paper to the OECD report, *States of Fragility 2020*, with the goal of informing development partners' support to fragile contexts.

The difference in levels of fragility between extremely fragile and non-fragile contexts has widened, especially between 2012 and 2018, meaning that the furthest behind are falling further behind (Desai and Forsberg, 2020[1]). This trend is also seen in financing. Some fragile contexts have succeeded in attracting private investment and remittances and/or increasing tax revenues. Yet others, especially extremely fragile contexts, remain heavily reliant on humanitarian and development finance.

Expanding the diversity of financing is a difficult transition to manage. It requires significant capacity and political will, and increases both opportunities and obligations. Fragile contexts can be visualised as small ships on the global financial and economic ocean. While they are home to 23% of the world's population – and are sources of many products critical to the global economy – fragile contexts account for only 2.7% of global gross domestic product (GDP) (World Bank, 2020[2]). Increasing diverse sources of finance involves navigating risks that are now acute in the face of the current, unprecedented global shock.

In addition to providing ODA, development partners can play a role in supporting fragile contexts' financial resilience by fostering the sustainable use of other financial resources. This paper explores possibilities of government finances, private investment and private giving. The paper presents some of the current risks and opportunities for financing in fragile contexts, especially the emerging debt crisis and the opportunity presented by the humanitarian-development-peace nexus. Key messages include:

- Fragile contexts have slowly increased their regional and global trading, migration and economic linkages, bringing opportunities as well as risks. The significant decline in trade and global financial flows brought on by COVID-19, alongside ongoing structural change in the energy sector, could signal an enduring shift for international markets, changing the economic opportunities available to fragile contexts. There are signs that the shock of the pandemic may cause international firms to reorient their supply chains to ensure key inputs are physically closer to consumer markets and are not being sourced from contexts perceived as logistically high-risk, in case of further disruption to transportation and shipping. For many fragile contexts, especially in sub-Saharan Africa, these impacts would place a renewed priority on enhancing regional and domestic markets to engage populations in local economies.
- Financing and fragility impact one another: a lack of socio-economic and financial opportunities is both a result of and a potential source of fragility. Where there is sufficient state functioning, the

government remains an important source of financial resilience, especially to significant shocks such as COVID-19. Financing can help build resilience, for example through investments in social protection and human capital. Unfortunately, it is unlikely that the level of economic resilience seen in fragile contexts during the 2008-2009 global financial crisis will be seen through the coronavirus (COVID-19) crisis, as many contexts had increased their access to financial resources that are now drying up.

- Tax revenue is the only way to achieve sustainable government financing over the long term, but most fragile contexts do not generate sufficient tax revenue. Based on the most recent data available, only a third of the 43 fragile contexts analysed have achieved a tax-to-GDP ratio of 15%, a widely considered benchmark for effective state functioning and economic development. Domestic resources mobilisation (DRM) is a nascent agenda in fragile contexts, and much remains to be learned about effective approaches. Almost all fragile contexts (51 out of 57) received some type of support to DRM between 2014 and 2018.
- Mobilising significant additional tax revenues is likely to only be achieved with sustained political commitment, alongside enhancements to public financial management and expenditure, governance, and economic performance as a whole. Putting government financing on a sustainable footing is challenging, especially when the state is an active party to conflict or has otherwise lost legitimacy. There are no easy answers. At the local level, the domestic resources mobilisation agenda could provide avenues for both raising revenue and contributing to building the social contract. Too high a debt burden could make this task harder. Debt is not necessarily negative per se, but it can require increased tax revenues to cover debt servicing costs and avoid harsh trade-offs with pro-development spending.
- Private investment remains a small component of the financing landscape in fragile contexts, especially when compared to other external financial resources such as remittances and ODA. Fragile contexts received just 6% of all developing context foreign direct investment (FDI) in 2018, totalling USD 33.4 billion. ODA is 11.5 times FDI in extremely fragile contexts and 1.4 times FDI in other fragile contexts. FDI has continued to favour contexts with natural resource endowments, with the largest inflows going to Nigeria, totalling nearly USD 53 billion between 2009 and 2018. At the same time, there have been substantial disinvestments, for example in Angola, Iraq, South Sudan and Yemen where disinvestments exceeded total investments over the ten-year period.
- Remittances are the single largest source of external financing in fragile contexts, and can provide a buffer during tough economic times. But the coronavirus (COVID-19) pandemic could disrupt this pattern. Estimated remittance flows to fragile contexts nearly doubled between 2009 and 2018 from around USD 60 billion to around USD 113.5 billion. But remittances to low- and middle-income countries are projected to fall by 19.7% in 2020, with remittance volumes in some countries such as Somalia expected to fall by as much as 40%. Remittances largely fell from March 2020, before stabilising in May and rebounding in line with the stringency of containment restrictions in remittance sending countries, though there has been a lot of variation between contexts.
- Sending remittances is more expensive in fragile contexts: The average cost of transferring USD 200 is 25% higher to a fragile context than it is to developing contexts as a whole, with an average cost of USD 18.87 in extremely fragile contexts and USD 16.13 in other fragile contexts. Costs for some of the most expensive countries are as high as USD 39 (Angola), USD 36 (Syria), USD 26 (Zambia) and USD 25 (Mozambique).
- Private giving remains a niche source of finance, at least in terms of international giving by foundations. But the Islamic wealth tithe, *zakat*, and other sources of Islamic finance could be significant in some fragile contexts. In 2018, private donors reported to the OECD USD 116 million in private giving to extremely fragile contexts and USD 1.12 billion to other fragile contexts. While estimates vary, *zakat* (alms) funds may amount to several hundred billion dollars a year. In a number of Muslim-majority countries, public *zakat* agencies collect these funds and may use them

for domestic or international development or humanitarian purposes, such as responding to refugee situations or droughts.

- Debt sustainability is again a core fragility issue. There were already signs of looming debt crises even before COVID-19. Fragile contexts owed at least USD 432.6 billion by the end of 2018, with extremely fragile contexts owing 11% of this total. It is likely that if no mitigating measures were taken, debt service in 2021 would amount to around 82% of ODA for other fragile contexts and 6% of ODA for extremely fragile contexts. The proportion of concessional debt is decreasing and debt-to-GDP ratios have increased markedly since the debt relief provided under the heavily indebted poor countries initiative through the 1990s and 2000s. This has reduced the space that fragile contexts have to respond to COVID-19 and other shocks.

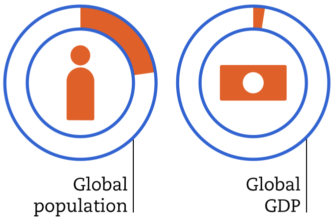
Yet in the face of these risks and challenges, increasing diversity in financing can bring opportunities as well. Even in very challenging areas – for example, financing in refugee situations, or the transition away from peacekeeping missions – development, humanitarian and peace actors are looking for ways to foster local economies and leverage new partnerships and sources of financing. The humanitarian-development-peace nexus should be seen as an integral part of the financing landscape, as non-ODA resources come to play an increasingly important role in fragile contexts. Tailoring approaches to local conditions will be critical to realise these opportunities, with communities of practice evolving to include both financing and fragility expertise.

Infographic 1.1 illustrates some of the key characteristics of fragile contexts as they impact on financing, along with trends in external flows, the volatility of government finances and the debt burdens many fragile contexts now face.

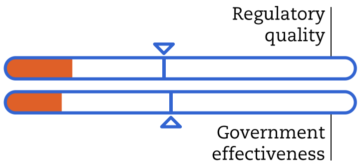
Infographic 1. Financing in fragile contexts

Fragility has a profound impact on financial flows of all kinds. Fragile contexts are…

- home to 23% of the global population but only 2.7% of global GDP in 2018 and 2019.



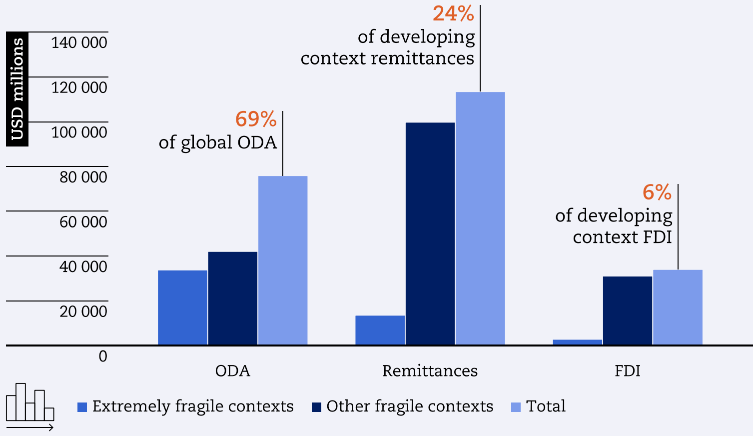
- gradually increasing their economic linkages. Economic remoteness has dropped by 9.5% since 2000.
- heavily impacted by commodity price volatility. 73% of the population of fragile contexts live in commodity-dependent countries.
- less likely to have strong economic governance, scoring an average 19th and 16th percentile on perceptions of regulatory quality and government effectiveness, compared to the 45th and 47th percentile for other contexts.



- less likely to have social safety nets, and less is spent on them. In fragile contexts, social safety nets total USD 35.5 per capita – 1/5th the amount of other developing contexts (USD 161 per capita).

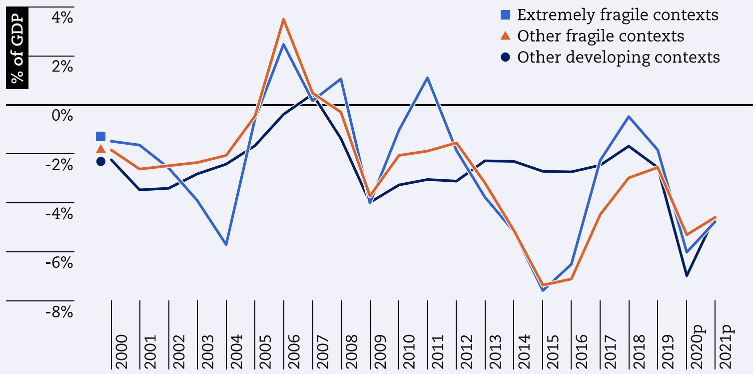
ODA plays a critical role in fragile contexts, especially the most fragile.

Overall ODA is the second-largest flow behind remittances, but in extremely fragile contexts, ODA was 11.5 times FDI, and 2.5 times remittances in 2018.



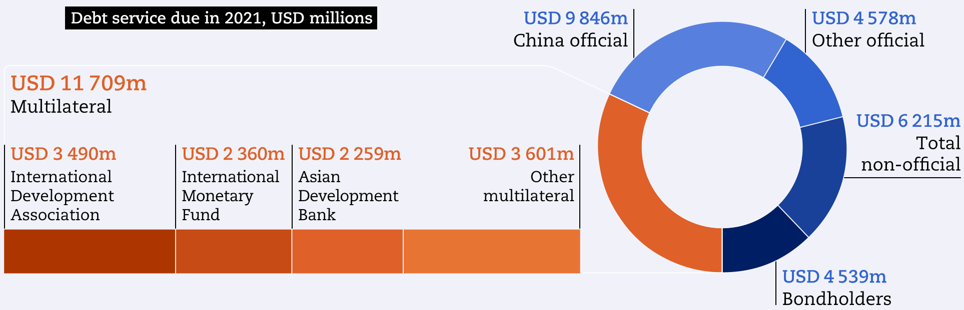
Fragile contexts show significant volatility in financing and a trend of increasing deficits.

While many fragile contexts have increased the diversity of their financing, their economies often remain concentrated in a narrow range of commodites dependent on global demand. Compared to other developing contexts, financing in fragile and extremely fragile contexts appears more vulnerable to economic booms and slumps between 2000 and 2021.



Many fragile contexts are carrying high debt burdens.

It is likely that without mitigating measures, in 2021 total debt service would amount to an estimated USD 37 billion, equivalent to roughly 6% of ODA in extremely fragile contexts, and 82% of ODA in other fragile contexts.



1. Building financial resilience in fragile contexts

Key messages

A lack of socio-economic and financial opportunities is both a result of and a potential source of fragility. Fragility shocks negatively impact on investment and tax receipts, while coping capacities such as fiscal policies and institutions can support the social contract and increase resilience.

Fragile contexts have slowly increased their connections to regional and global trading, movements of people, and economic and investment flows. This has brought opportunities as well as risks. The coronavirus (COVID-19) pandemic is illustrating this risk, with severe impacts on investment and trade, remittances, and government revenues.

Aid and other sources of finance need to be sensitive to the political economy and the drivers of fragility in a particular context. The Addis Ababa Action Agenda (AAAA) called for a wide variety of financing sources to contribute to development. Implementing this agenda in fragile contexts needs to take a differentiated approach that is sensitive to the dimensions of fragility and the specific operating contexts. In particular, further work is needed to develop financing strategies that link these diverse actors and sources of financing with the humanitarian-development-peace nexus.

Financing and fragility impact on one another

Getting financing right can have a significant impact in fragile contexts and support movements from fragility to resilience. Yet fragile contexts face substantial funding gaps for delivering basic services and unique constraints to raising revenue, attracting private investment, and growing and diversifying their economies. Fragile contexts can be visualised as small ships on a very large and tumultuous economic and financial ocean. While they are home to 23% of the world's population, and are sources of many products critical to the global economy, fragile contexts account for only 2.7% of global gross domestic product (GDP) (World Bank, 2020[2]).

Even before the COVID-19 crisis, developing countries had a large financing gap to fill in order to fund the Sustainable Development Goals (SDGs). Gaspar et al. (2019[3]) estimate that an additional 15.4% of GDP in spending would be required to fill SDG spending gaps in low-income economies and that an estimated 4% of GDP would be required in emerging economies. Neither ODA nor tax revenues are on track to fill these financing gaps. The Overseas Development Institute estimated the financing gap for health, education, and social protection in 140 economies, and found that even if potential tax revenues were fully realised, 29 economies would still be severely financially challenged and 48 economies could not meet financing requirements in these sectors. When including ODA, 42 economies could not meet financing requirements in these sectors (Manuel et al., 2018[4]).

Given that fragile contexts have bigger gaps in SDG attainment than less-fragile contexts, exacerbated by inequalities in outcomes and access to resources, there is a great need for high quality SDG spending. The majority of fragile contexts are on track to meet just one SDG, SDG 13 on climate action. Progress is particularly slow on SDG 2 (zero hunger), SDG 3 (health) and SDG 5 (gender equality) (Marley and Desai, 2020[5]).

Fragility affects financing and vice versa: a lack of socio-economic and financial opportunities is both a result and a potential source of fragility. Following the Ebola outbreak in 2014-15, for instance, tax collections in Guinea, Liberia and Sierra Leone declined by about 1.5% of GDP (Akitoby, Honda and Primus, 2020[6]). Similarly, fragility affects both the frequency and the volume of private investment (Basile and Neunuebel, 2019[7]). The fragility risks that can arise from a lack of resources, or poorly utilised resources, are captured in the economic dimension of the OECD fragility framework through measures of debt-to-GDP and economic diversification.[1]

The links between financing and fragility extend into the societal, environmental, political and security dimensions, with "groups bargain[ing] for access to the basic means of livelihoods and well-being" in arenas of contestation such as land and natural resources and service delivery (UN/World Bank, 2018[8]). Financing can help build resilience through, for example, investments in social protection and human capital (Forichon, 2020[9]). There is some evidence to suggest that countercyclical fiscal policies in response to economic shocks – only possible with sufficient fiscal space – can lower the risk of armed conflict, especially in Africa in more unequal societies, and in countries with weak institutions (Aguirre, 2016[10]). Moreover, based on econometric analysis of 26 sub-Saharan African contexts, Deléchat et al. (2018[11]) found that building resilience is significantly associated with the development of fiscal institutions, including the capacity to raise tax revenue, contain current spending, lower military spending and, to some degree, increase social expenditure.

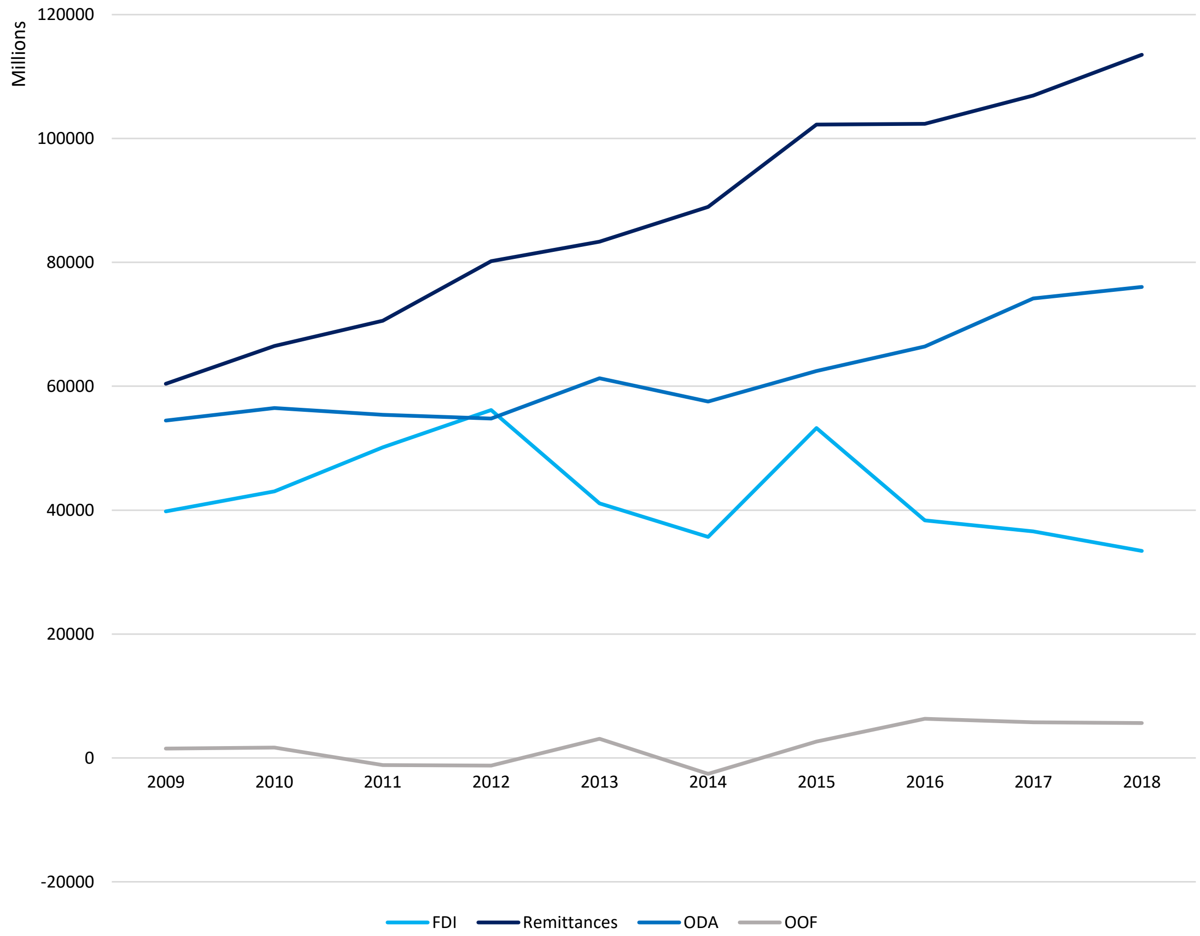
The financing landscape continues to change, bringing benefits as well as risks

While official development assistance (ODA) remains a significant resource in fragile contexts, other financial resources such as investment and remittances – as well as the economic linkages and growth that support them – have changed over time. Fragile contexts have slowly increased their economic connections, including regional and global trading and migration. But they are still less well-connected economically than other developing countries and, especially in Africa, they are more likely to trade with each other (regionally) than with the rest of the world (globally) (Bouët, Cosnard and Laborde, 2017[12])..

Nevertheless, economic remoteness has dropped by 9.5% since 2000 among the 56 fragile contexts measured by the least developed country indicator (UN DESA, 2018[13]). Many fragile contexts have managed to diversify their financing through remittances – an individual-to-individual financial flow that increases household incomes – or by increasing and diversifying their tax revenues. While some contexts have attracted significant volumes of foreign direct investment (FDI), in general, FDI to fragile contexts appears to be decreasing, reflecting a global trend of reduced FDI since 2015 (OECD, 2020[14]). Other official flows (OOF), which include forms of non-concessional development finance from Development Assistance Committee (DAC) members, have remained at a low level. Figure 1.1 shows the widening gap between remittances and ODA, on one hand, and FDI and OOF, on the other.

Figure 1.1. ODA and remittances remain the largest external financial resources in fragile contexts

FDI, ODA, OOF, and remittances, 2018 USD million



Source: OECD (2020[15]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?datasetcode=CRS1; World Bank (2020[16]), *Personal remittances, received (current USD)* (database), https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT; World Bank (2020[17]), *Foreign direct investment net inflows* (database), https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.

Over the long term, the goal of diversifying and increasing financial links is to expand economic and social opportunities and increase self-reliance. But the process also brings risks to be navigated. While fragile contexts fared reasonably well during the 2008-09 global financial crisis and subsequently increased their linkages to the global economy and capital markets, many of these linkages are now drying up due to the COVID-19 pandemic (Ongley and Selassie, 2020[18]). Box 1.1 discusses likely COVID-19 impacts on financing in fragile contexts.

Box 1.1. The impact of coronavirus (COVID-19) on financing in fragile contexts

The COVID-19 pandemic is likely to significantly impact fragile contexts – directly as a health crisis and in terms of its socio-economic effects (OECD, 2020[19]; OECD, 2020[20]). The pandemic is reducing the incomes of households and small businesses, meaning there is less money to pay for food and medicine and to send children to school. Fragile contexts are home to 460 million people living in extreme poverty, or 76.5% of the worldwide total, as well as 43% of all those expected to fall into extreme poverty due to COVID-19 by the end of 2020, or 26 million people.

The COVID-19 pandemic is also spurring capital flight from developing countries, reducing tax revenues and cutting remittance flows. Such trends can reduce government finances, private investment and household incomes even as the need for social expenditure, healthcare and economic stimulus grows.

Investment and trade: Global flows are in decline, and the shift may endure for some time. The WTO forecasts a 9.2% decline in global merchandise trade in 2020, with a partial rebound of 7.2% in 2021, well below the pre-pandemic trend (WTO, 2020[21]). Meanwhile, even under the most optimistic COVID-19 scenario, global FDI flows are expected to fall by more than 30% in 2020 (OECD, 2020[22]). Developing countries may be hit hard economically, given that the sectors most severely impacted by the pandemic – for example, the primary and manufacturing sectors – account for a larger share of FDI in than in developed economies. Fragile contexts, however, generally receive only a small fraction of total global FDI flows – only 6% of the FDI to developing countries in 2018 – as investors are generally cautious about the higher potential risks in fragile contexts.

This places a renewed priority on regional economic and financial opportunities, for instance through increased regional economic integration and efforts to increase competitiveness such as the African Continental Free Trade Area (Mold and Mveyange, 2020[23]; Fofack, 2018[24]). Over the medium to long term, investors may further retrench towards physically closer supply chains in order to reduce the risk in their supply of materials and products (OECD, 2020[22]). This would bring both winners and losers among fragile contexts, as some may be able to leverage their proximity to consumer markets or their role as a regional hub.

Remittances: At the country level, remittances are often countercyclical, in that volumes tend to increase during economic downturns in migrants' home countries. The COVID-19 pandemic, however, is disrupting this pattern. As a result of the global economic downturn on migrant-hosting countries – especially in sectors of the economy that employ large numbers of migrants –remittances to low- and middle-income countries are projected to fall by 19.7% in 2020, and fragile contexts may be among the worst affected (World Bank, 2020[25]). Remittances largely fell from March 2020, before stabilising in May and rebounding in line with the stringency of containment restrictions in remittance sending countries, though there has been a lot of variation between contexts (Quayyum and Kpodar, 2020[26]). In contexts where remittances are very large relative to GDP, the impacts may be especially severe. One example is Somalia, where ODA and remittances are each equivalent to about a third of the country's GDP and where remittances are expected to fall by 40% due to COVID-19 (International Organization for Migration, 2020[27]).

Government revenues: In many fragile contexts, the COVID-19 pandemic is likely to cause a drop in government revenues that could be bigger than the economic downturn itself (OECD, 2020[28]). How much revenue falls in any given context will depend on the structure of its economy, its tax administration and its tax base (International Monetary Fund, 2020[29]). Zeufack et al. (2020[30])estimate an economic contraction in sub-Saharan Africa of between 2.1% and 5.1% of GDP in 2020 (compared to growth of 2.4% in 2019), and reductions in government revenues of 12%-16%. In response to COVID-19, some fragile contexts have taken steps to reduce the tax burden on affected business (Solomon

Islands and Togo) and have reduced import or consumption taxes on certain items (Malawi and Somalia) (Akitoby, Honda and Primus, 2020[6]).

In many fragile contexts, the economic contraction will affect multiple sources of revenue at the same time – reflected in falling resources revenue, falling profits, reduced consumption and increased unemployment – and will affect the revenue administration's ability to collect tax. Based on the World Bank list of fragile contexts,[2] Akitoby, Honda and Primus (2020[6]) project a decline in tax-to-GDP from an average 12% to 11.3% of GDP in 2020. Fragile contexts do not always have the benefit of sectors that have been resilient or are even thriving during the pandemic in some countries, such as telecommunications or retail delivery. Other relatively resilient sectors, such as agriculture, that are more prominent in fragile contexts, generally pay little tax (International Monetary Fund, 2020[29]). Consumption taxes and trade-related taxes form the backbone of many fragile contexts' revenue and have been severely impacted by reduced trade and tourism. Consumption may also shift towards less-taxed necessity goods and increased government consumption, as was observed in OECD countries during the global financial crisis (Simon and Harding, 2020[31]).

These COVID-19 impacts mean that fragile contexts may become even more aid dependent, at least in the short term (Ratha et al., 2020[32]; UNCTAD, 2020[33]). In 2018, the average aid dependency of extremely fragile contexts, as measured by the ratio of ODA to gross national income, amounted to 19% (OECD, 2020[20]; Desai, 2020[34]).

ODA itself has been resilient in the past amid global economic downturns (van de Poel, 2020[35]; Ahmad et al., 2020[36]), and DAC members have undertaken to "strive to protect" ODA amid other budgetary pressures (OECD, 2020[37]). Nevertheless, COVID-19 is likely to have an impact, especially for donor countries where ODA is tied to measures of gross national income, which is itself reducing. Further, COVID-19 is affecting the in-country operations of development partners and humanitarian actors alike (OECD, 2020[19]).

Development partners can play a role in supporting fragile contexts' financial resilience directly through ODA, but they can also foster the availability of other financial resources. The possibilities of government finances are discussed in Chapter 2, private investment in Chapter 3, remittances and private giving in Chapter 4. Chapter 5 outlines some of the current risks and opportunities for financing in fragile contexts, specifically the emerging debt crisis and the opportunity presented by the humanitarian-development-peace nexus.

2. Sustainable and resilient government financing

Key messages

Where there is sufficient state functioning, the government remains an important source of financial resilience, especially to significant shocks. Unfortunately, it is unlikely that the level of resilience seen in fragile contexts during the 2008-2009 global financial crisis will be seen through the coronavirus (COVID-19) crisis, since many contexts had increased their access to external financial resources that are now drying up.

Tax revenue is the single largest source of financing for development globally and is the only way to achieve sustainable government financing over the long term, but most fragile contexts do not generate sufficient tax revenue. Only a third of the 43 fragile contexts analysed have achieved the tax-to-gross domestic product (GDP) ratio of 15%, which is widely considered as a benchmark for effective state functioning and economic development.

The domestic resources mobilisation agenda is in its early stages in fragile contexts, and there is a lot that is not yet known about effective approaches. Almost all fragile contexts (51 out of 57) received some type of support to domestic resources mobilisation between 2014 and 2018. For those contexts receiving such funds, development partners continue to provide larger sums to public financial management (USD 12.2 million on average) than they do to domestic resources mobilisation (USD 4.7 million on average) in 2018.

Mobilising significant additional revenues is likely to only be achieved with sustained political commitment, alongside enhancements to public financial management and expenditure, governance, and economic performance as a whole. Too high a debt burden makes this task even harder. Depending on the type of debt, borrowing is not necessarily negative per se, but it can require increased tax revenues to cover debt servicing costs and avoid harsh trade-offs with pro-development spending.

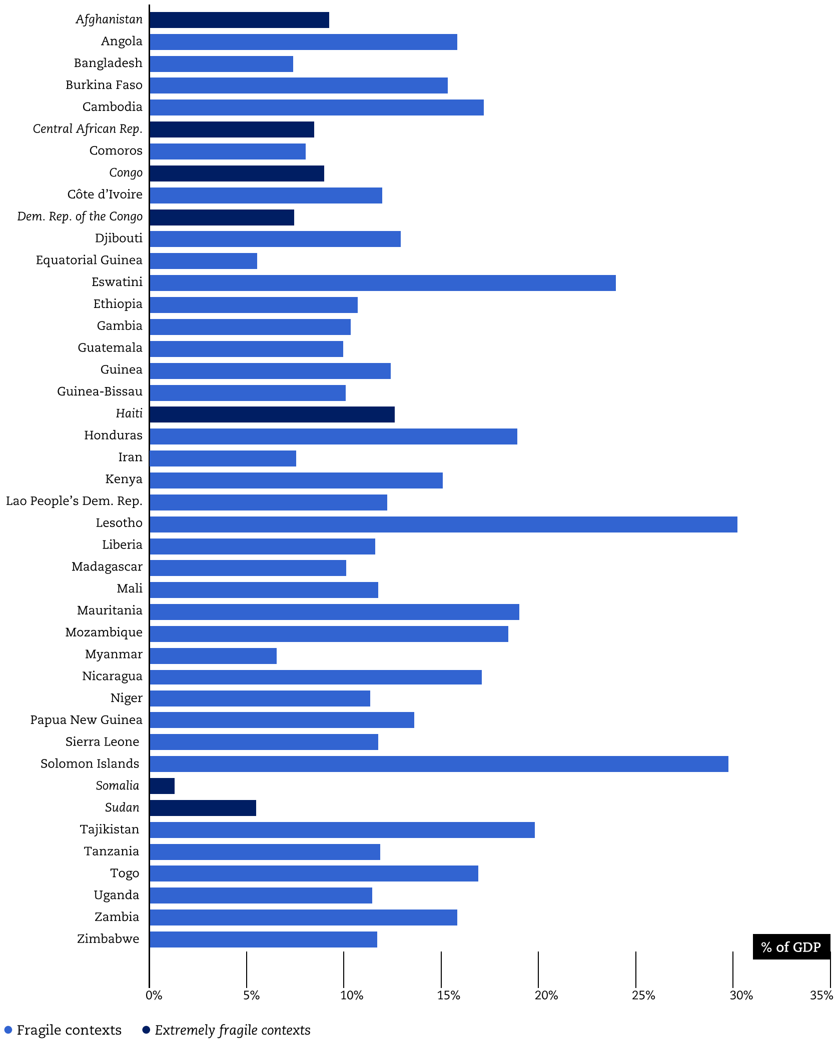
COVID-19 is again highlighting the special role the state could play in times of crisis, as well as in the long-run growth and equity of an economy. Furthermore, domestic resources mobilisation (DRM) – especially increasing tax revenue – has become an important part of the financing for development agenda globally since agreement of the Sustainable Development Goals and the Addis Ababa Action Agenda in 2015 (UN, 2015[38]). Governments in fragile contexts face often severe fiscal constraints, and putting state financing on a sustainable footing is challenging but necessary. This challenge is especially acute when the state is an active party to conflict or has otherwise lost legitimacy. There are no easy answers. Nevertheless, raising and spending revenue is a key government role that is intertwined with the development of government legitimacy and capacity.

Fragile contexts face hard fiscal constraints

Tax revenue is the single largest source of financing for development globally, with a tax-to-GDP ratio of 15% widely considered a benchmark for effective state functioning and economic development. This is discussed by, for example, the OECD (2018[39]) in the *Global Outlook on Financing for* Sustainable Development 2019 and earlier by Gaspar, Jaramillo and Wingender (2016[40]). According to the most recent available data, only 14 of the 43 fragile contexts analysed for this paper have achieved this 15% ratio, as illustrated in Figure 2.1. The figure generally excludes social security charges, but even if the calculations for all contexts included social security charges, still only one-third have a tax-to-GDP ratio of 15% or higher.

Figure 2.1. Most fragile contexts have a tax-to-GDP ratio below 15%

Total tax-to-GDP ratios, excluding social security charges



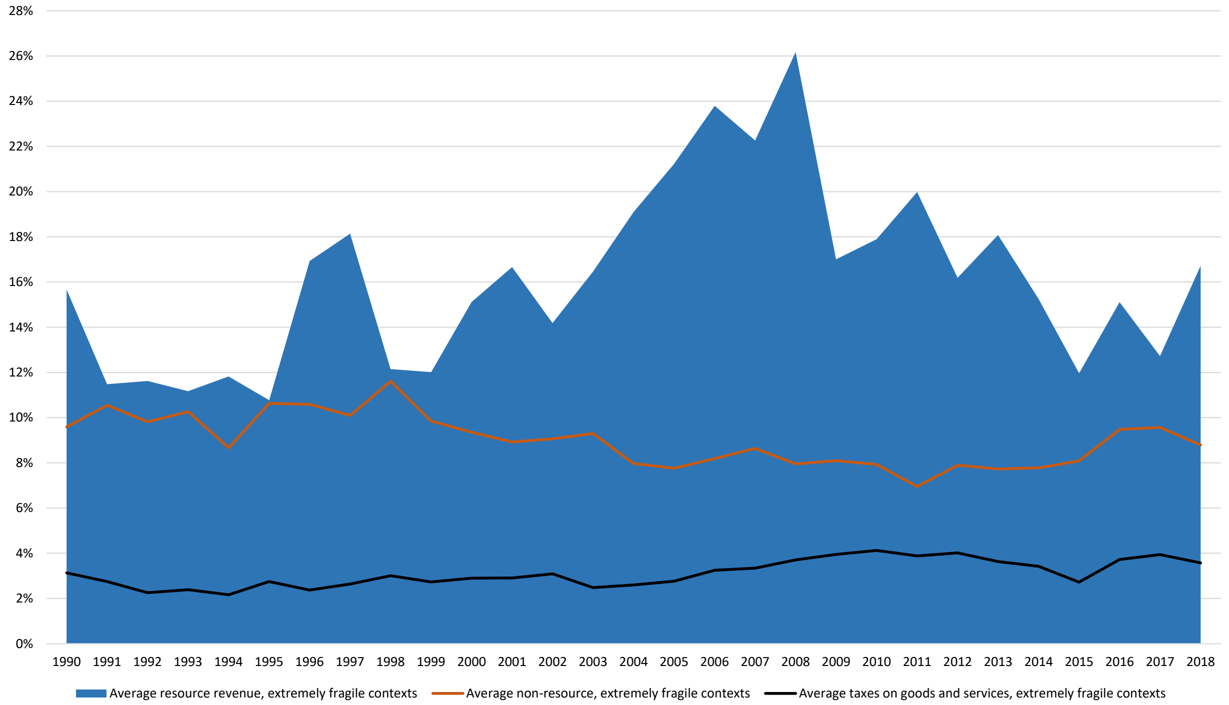
Note: Data exclude social charges for all contexts except the Central African Republic (2018) and the Islamic Republic of Iran (2016); data for these two contexts include social charges. This figure is based on 7 extremely fragile contexts and 36 other fragile contexts and uses the most recent available data for each context. For most contexts, data are for 2018. Data are for 2017 for Afghanistan, Angola, Comoros, Guinea-Bissau, Lao People's Democratic Republic, Myanmar, Tajikistan and Tanzania. For Somalia and Sudan, data are for 2016.
Source: Authors' calculations based on the merged dataset at UNU-WIDER (2020[41]), *GRD - Government Revenue Dataset* (database), https://www.wider.unu.edu/project/government-revenue-dataset.

One of the challenges for governments and economies in fragile contexts is that they are heavily reliant on natural resource revenues. Of the 88 countries considered to be dependent on agricultural, mineral or energy commodities, 45 are also fragile contexts, with 73% of the population of fragile contexts living in commodity dependent states (UNCTAD, 2019[42]; UN DESA, 2020[43]). This presents both financial and fragility challenges, as some commodity revenues are volatile and highly vulnerable to global market conditions. While difficult to measure, it appears that without the necessary checks and balances, natural resources revenue is vulnerable to being diverted offshore as illicit financial flows (Andersen et al., 2017[44]). This reliance also enables rent-seeking and, can allow those in control of resources to sidestep the need to use fiscal resources to underpin an effective social contract (Ross, 2012[45]; von Haldenwang and Ivanyna, 2018[46]).

Extremely fragile contexts in particular receive a significant proportion of their government revenue from volatile natural resources (Figure 2.2). Trade taxes make up a smaller but consistent proportion of revenues, at around 3% of GDP in 2018 across fragile contexts.[3] According to OECD data, the Kingdom of Eswatini's non-tax revenue totalled 14.3% of GDP in 2017, 86% of which was from the Southern African Customs Union under revenue-sharing agreements; in Republic of the Congo (Congo), oil revenues amounted to 13% of GDP in 2017 (OECD/ATAF/AUC, 2019[47]). Natural resources remain a dominant component for many developing economies, and some (such as oil) are experiencing a significant negative shock due to the pandemic (UNCTAD, 2020[48]). Oil exporters in particular are facing a double shock of the pandemic and historically low oil prices alongside the ongoing structural transition away from fossil fuels, all at a time of high indebtedness (OECD, 2020[49]).

Figure 2.2. Volatile resource revenue remain important sources of government financing

Average resource and non-resource revenues as a percentage of GDP in extremely fragile contexts, 1990-2018

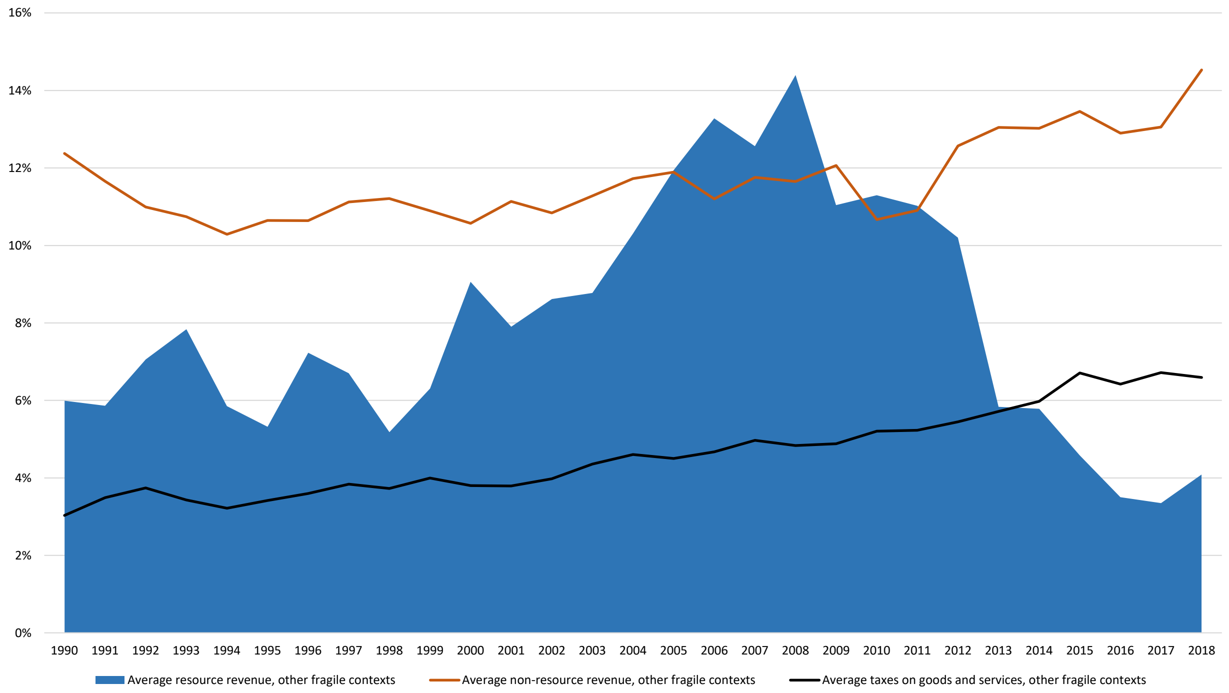


Note: The time series in this figure should not be summed. They are constructed by taking the average percentage of GDP for each revenue type based on the contexts reporting data in a given year. Natural resources are defined as natural resources that include a significant component of economic rent, primarily from oil and mining activities. Natural resource revenues include those reported as tax revenue or non-tax revenue. Further, while UNU-WIDER data are used due to country coverage, the reduction in natural resource revenues since 2008 is broadly consistent with the finding that non-tax revenues have been decreasing across the 26 African countries for which OECD data are available, as reported in OECD/ATAF/AUC (2019[47]), *Revenue Statistics in Africa 2019: 1990-2017,* https://doi.org/10.1787/5daa24c1-en-fr.
Source: Authors' calculations based on the merged dataset at UNU-WIDER (2020[41]), *GRD - Government Revenue Dataset* (database), https://www.wider.unu.edu/project/government-revenue-dataset.

At least in terms of government revenues, however, some fragile contexts appear to be slowly diversifying, increasing the proportion of non-resource revenues. Average non-natural resource revenue and sales taxes have been increasing for other fragile contexts as a proportion of GDP, while resource revenues have decreased (Figure 2.3). While revenue classifications vary between data sources, the OECD has also found that non-tax revenues, which include natural resource rents, have been on a downward trend across the 26 African countries covered by OECD data since 2008 (OECD/ATAF/AUC, 2019[47]).

Figure 2.3. Some fragile context governments have been diversifying their revenue base

Average resource and non-resource revenues as a percentage of GDP in other fragile contexts, 1990-2018



Note: The time series in this figure should not be summed. They are constructed by taking the average percentage of GDP for each revenue type based on the contexts reporting data in a given year. Natural resources are defined as natural resources that include a significant component of economic rent, primarily from oil and mining activities. Natural resource revenues include those reported as tax revenue or non-tax revenue. Further, while UNU-WIDER data are used due to country coverage, the reduction in natural resource revenues since 2008 is broadly consistent with the finding that non-tax revenues have been decreasing across the 26 African countries for which OECD data are available, as reported in OECD/ATAF/AUC (2019[47]), *Revenue Statistics in Africa 2019: 1990-2017*, https://doi.org/10.1787/5daa24c1-en-fr.
Source: Authors' calculations based on the merged dataset at UNU-WIDER (2020[41]), *GRD - Government Revenue Dataset (database)*, https://www.wider.unu.edu/project/government-revenue-dataset.

Mobilising revenues can be part of developing the social contract

COVID-19 has reaffirmed the importance of good state functioning, including for supporting and regulating the performance of the private sector. Social expenditure and stability suffer when state functioning is poor or absent. Even when private and non-government actors deliver public goods, fiscal policies are increasingly acknowledged as central to achieving social, stability and development goals beyond economic performance alone (OECD, 2018[39]; Poole, 2018[50]; Gaspar et al., 2019[3]).

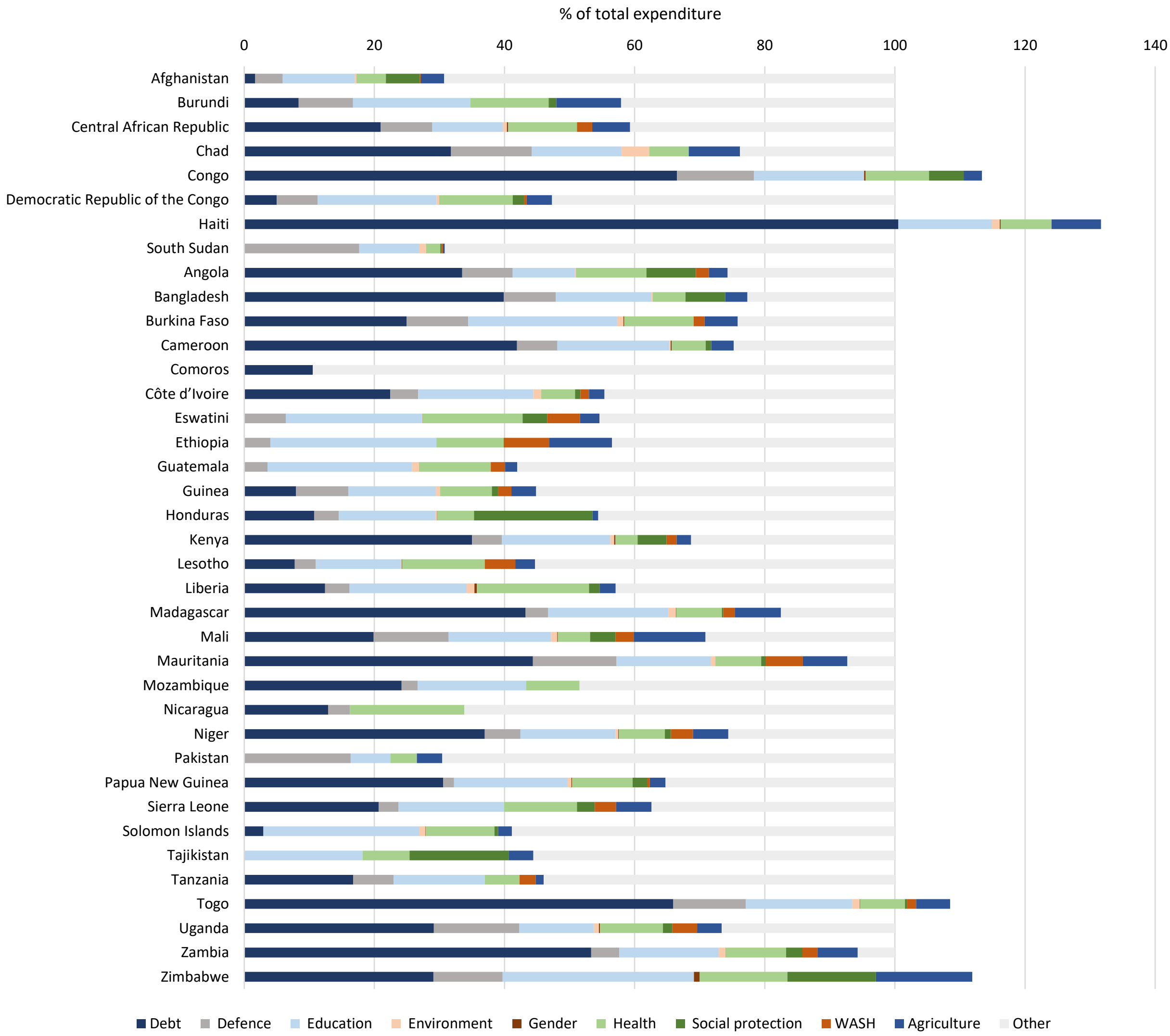
The sustainability of government financing matters for stability – not just in terms of the goods and services the government can purchase, but also because of its potential to allow the government to act as a financial shock absorber and to strengthen the fiscal contract between the government and citizens, and thus to support resilience and stability. Increasing domestic revenues is therefore a priority, including in terms of domestic governance reforms and capacity development. Raising and spending revenue is seen as a key capacity that supports resilience and can help build social cohesion through the fiscal contract, whereby increased taxation increases citizens' expectations of their government and its accountability (OECD, 2019[51]).

There are many challenges to achieving sustainable government financing including low capacity, limited state reach and distrust of government. In fragile contexts, many households and businesses may never have paid taxes to the local or national government, while payments to non-state actors may be common. These latter payments can be significant as a share of income and can negatively affect people's willingness to pay taxes. In looking at the factors determining attitudes towards paying tax in Kenya, South Africa, Tanzania and Uganda, Ali, Fjeldstad and Sjursen (2014[52]) found that frequent payment to non-state actors in exchange for security was negatively correlated with a positive attitude towards tax compliance, as was individuals' perception that their ethnic group was being unfairly treated by the government. By contrast, people's attitude towards tax compliance was positively correlated with provision of public services and to varying degrees depending on which of different public services.

What governments fund with the revenues they mobilise is a key component of this fiscal and social contract. To understand the financing picture in fragile contexts, it is necessary to understand how a government's expenditure can contribute to development goals. As illustrated in Figure 2.4, governments in fragile contexts spend the revenue they collect in very different ways.

Figure 2.4. Governments in fragile contexts spend their financial resources in very different ways

Planned expenditure as a percentage of total expenditure in 2019 in select fragile contexts



Note: Government Spending Watch aggregates data from different sources, and the data available vary by context, year and expenditure type. For this reason, planned sectoral expenditure may exceed 100% of total expenditure, as it does for Congo, Haiti, Togo and Zimbabwe. Planned expenditure data are used as it provides substantially better data coverage than actual expenditure at the sectoral level. Debt service data are usually based on debt service-to-revenue ratios published in IMF country reports.
Source: Government Spending Watch (2020[53]), *Spending Data* (database), https://www.governmentspendingwatch.org/spending-data.

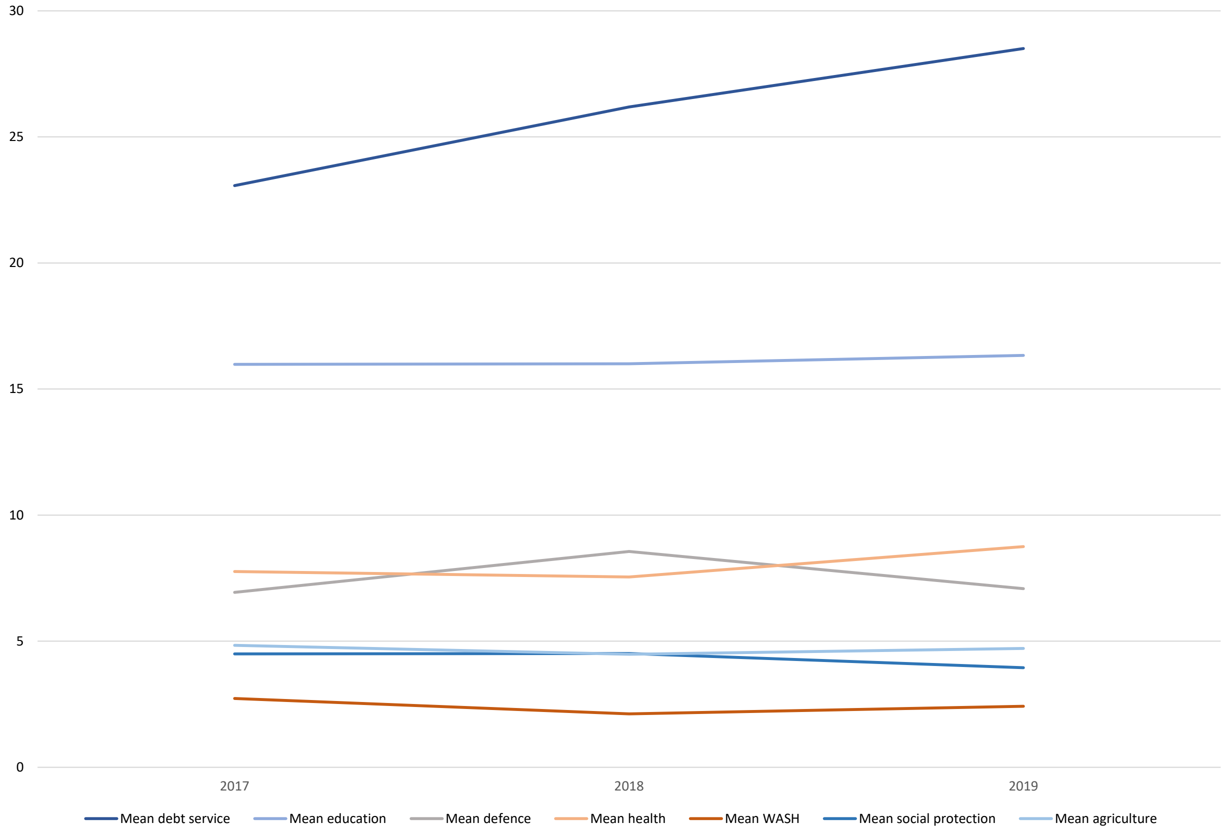
An examination of average expenditures between 2017 and -2019 across fragile contexts highlights some common elements and trends, as illustrated in Figure 2.5 and as follows:

- First, on average, debt servicing in this three-year period increased substantially as a proportion of government budgets. Many fragile contexts are at risk of a debt crisis that is triggered by the economic impacts of COVID-19 but, ultimately, is due to a historically high "cresting debt wave" (Kose et al., 2020[54]) that pre-dates the pandemic. These debt risks are discussed further in Chapter 5. Debt is not necessarily bad per se. If it is sustainable, debt can enable pro-development spending sooner and in greater volume than might otherwise be the case. But the quality and nature of that expenditure are key because contexts that end up spending a larger proportion of their revenue on debt repayments are not spending that revenue on other social and economic expenditure. See, for example, the United Nations report, *Debt and COVID-19: A Global Response in Solidarity* (UN, 2020[55]).

- Second, expenditure on human capital and social safety nets in fragile contexts appears to be much more limited than in other developing contexts. It should be noted that since debt servicing is not sectorally allocated, a proportion of the debt service seen in Figure 2.5 could be used to repay loans for education and water, sanitation and hygiene infrastructure, for example, and would not be recorded against these sectoral classifications. Yet, even accounting for this, far less is spent on social safety nets in fragile contexts than in other developing contexts - just one-fifth as much (USD 35.5 versus USD 161 per capita[4]), according to data from the World Bank Atlas of Social Protection Indicators of Resilience and Equity, or ASPIRE (World Bank, 2020[56]).[5]

Figure 2.5. Debt service has been increasing as a proportion of government expenditure

Planned expenditure by category as a percentage of total expenditure, mean of fragile contexts, 2017-19



Note: This figure shows the arithmetic mean across all contexts for which data are available for a given year and expenditure type. Expenditure in the categories of gender and environment has been omitted due to poor data coverage and small volume (less than 1% of total planned expenditure). For debt service, nine fragile contexts reduced and 23 fragile contexts increased debt service as a proportion of total expenditure between 2017 and 2019; data are not available for the remaining fragile contexts. Papua New Guinea had by far the largest decrease in debt service (from 103.79% of planned budget in 2017 to 30.58% in 2019), followed by Angola (49.4% to 33.51%), Chad (47.31% to 31.78%) and Togo (78.86% to 65.93%). Due to the phenomenon of so-called missing debt, additional debt service payments may not be fully captured here.At the same time, 15 fragile contexts reduced and 22 increased their health expenditure as a proportion of their planned budgets; data are not available for the remainder of the 57 fragile contexts. Zimbabwe had the biggest increase (from 5.9% of the planned budget in 2017 to 13.5% in 2019), followed by Eswatini (from 9.91% in 2017 to 15.35% in 2019). Honduras (9.06% to 5.64%) and Niger (9.22% to 7.08%) had the largest decreases in health expenditure as a proportion of the planned budget.
Source: Government Spending Watch (2020[53]), Spending Data (database), https://www.governmentspendingwatch.org/spending-data.

Increasing tax revenues requires political leadership, and improvements in the quality of institutions and public expenditures

Being able to sustainably invest in development, and reaping the benefits and returns of that investment, constitute an important rationale for governments increasing revenues or taking on debt. But the ability to do so relies heavily on what the revenue or debt financing is used for and the quality of that investment. These can vary dramatically across countries and can be particularly challenging in fragile contexts.

Most fragile contexts experience severe capacity constraints in economic governance, for example, linked to the interests and incentives of political elites. On the World Governance Indicators, fragile contexts score an average 19th and 16th percentiles, respectively, on perceptions of regulatory quality and government effectiveness, while other developing countries score an average 45th and 47th percentiles (World Bank, 2018[57]).

In addition to choices on what to fund, the quality and efficiency of public investment processes contributes to a country's ability to leave no-one behind (for example, through investment in water supply, sanitation and hygiene (WWAP, 2019[58])). The quality and efficiency of infrastructure investment can impact on the government's ability to provide affordable social services and safety nets. By impacting on growth, quality infrastructure investment can increase the ability to collect revenue, to service debt, and to pay for social services. The International Monetary Fund (IMF) has found that the most efficient public investors have twice the positive impact on growth for every dollar spent than do the least efficient investors (International Monetary Fund, 2015[59]). Further, taking on more debt (a widening fiscal deficit) was associated with increased public investment in only a third of developing countries, implying that borrowing was being used to pay for today's expenditure rather than investing in the future, potentially creating a vicious cycle over time (International Monetary Fund, 2020[60]).

Technical reform needs to be accompanied by political-level buy-in and leadership. A review of tax increase episodes in Liberia, Malawi, Nepal and Solomon Islands by Akitoby, Honda and Primus (2020[6]) highlights the need for strong political commitment to sustain reform efforts. The authors find that while it was challenging to sustain momentum, many fragile contexts did succeed in increasing tax revenues, and that with the right leadership, tax reforms can be successful even in fragile contexts (Box 2.1).

Box 2.1. Political commitment is needed over the long term to increase tax revenues

In a paper for the International Monetary Fund, Akitoby, Honda and Primus (2020[6]) analyse the cases of Liberia, Malawi, Nepal and Solomon Islands, each of which has seen sustained increases in tax revenues. Two of the four, Liberia and Solomon Islands, are fragile contexts on the 2020 OECD fragility framework. Liberia has sustained tax reform over nine years, increasing its tax revenue by 7.5% of GDP. Likewise, Solomon Islands sustained tax reform over 12 years, increasing tax revenue by 19.8% of GDP. Malawi, one of the contexts that exited the OECD framework in 2020, increased tax revenue by 11% of GDP over a 12-year period. While the variety among fragile contexts implies that reforms must be tailored to the local context, the authors find that:

- It is possible to pursue tax reforms even with weak initial institutions.
- To realise long-lasting, sizable gains and sustain reform efforts, strong political commitment is required.

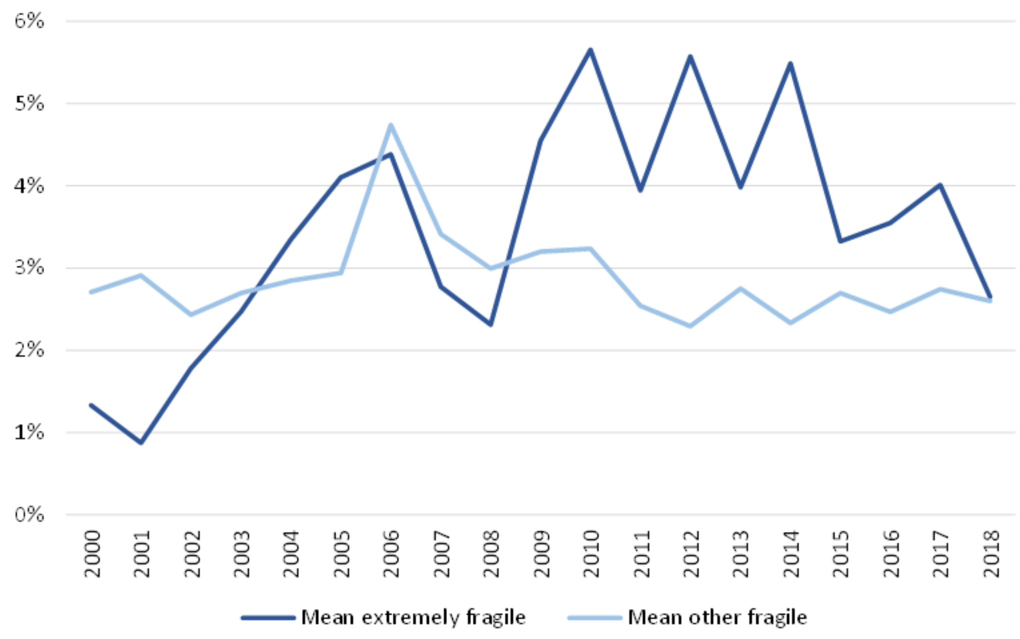
The study finds close links between tax administrations' quality and more general institutional quality such as control of corruption, government effectiveness and political stability. They also find that improving institutional quality is more important for increasing tax revenue in fragile contexts than it is in other developing contexts, especially those starting from a lower institutional base. Factors correlated with weaker tax revenue performance include a large share of agriculture in the economy, perhaps reflecting informality, and high inflation and/or underlying macroeconomic imbalances. The study did not support the idea that in fragile contexts, large volumes of aid would demotivate tax reform efforts.

Note: The contexts included in their analysis are drawn from the World Bank List of Fragile and Conflict-affected Situations.
Source: Akitoby, Honda and Primus (2020[6]), "Tax revenues in fragile and conflict-affected states - why are they low and how can we raise them?", https://www.imf.org/en/Publications/WP/Issues/2020/07/24/Tax-Revenues-in-Fragile-and-Conflict-Affected-States-Why-Are-They-Low-and-How-Can-We-Raise-49570 .

Budget support has historically been an important aid modality for supporting government finances and incentivising reform. While budget support provides an important mechanism for engaging in policy dialogue, its popularity has declined significantly over the last 20 years, especially among bilateral donors, due to governance concerns (Dijkstra, 2018[61]). Nevertheless, budget support remains a small component of the budgets of some fragile contexts, and especially those of extremely fragile contexts, where grants as a component of government revenue have constituted up to 5.5% of GDP on average in some years. The volumes of grant-based budget support are volatile, however, which could make it difficult for governments to plan with this revenue, potentially undermining the grants' effectiveness (Figure 2.6).

Figure 2.6. Fragile contexts receive a small and volatile portion of their budget as grants

Proportion of government revenue that is grants, expressed as a percentage of GDP, 2000-18



Note: This figure shows a simple (not weighted) average of the proportion of government revenue that is made up of grants from all sources. While the mean drops in 2018, this figure is based on data from fewer countries than were used for previous years and may be revised in the future.
Source: UNU-WIDER (2020[41]), *GRD - Government Revenue Dataset* (database), https://www.wider.unu.edu/project/government-revenue-dataset.

Significant budget support, including sectoral operations and lending, is still provided through the multilateral system and by European Union institutions (OECD, 2016[62]). Some bilateral donors, meanwhile, provide small but invaluable support that is focused on reinforcing state presence and avoiding state collapse, especially in extremely fragile contexts. One example is the Central African Republic, a very weak governance environment where France and the EU have provided budget support. The multi-donor Bêkou Trust Fund has provided financing to appoint local prefectures and sub-prefectures as part of efforts to stabilise and reestablish the state beyond Bangui, the capital (OECD, 2019[63]).

Fiscal management is a long-standing priority for development partners in developing countries, including fragile contexts, with important development benefits. This has included a long history of donor engagement in public financial management (PFM) and governance reform; the use of country systems (budget support) and the aid effectiveness agenda; and international work to help countries manage debt and balance of payments crises. Evidence from the global financial crisis of 2008-2009 shows some of the benefits: countries had greater fiscal buffers than ever before and were able to use these to sustain growth and development gains (Brahmbhatt and Canuto, 2012[64]). Unfortunately, this same level of economic and financial resilience is unlikely through the COVID-19 pandemic (OECD, 2020[19]).

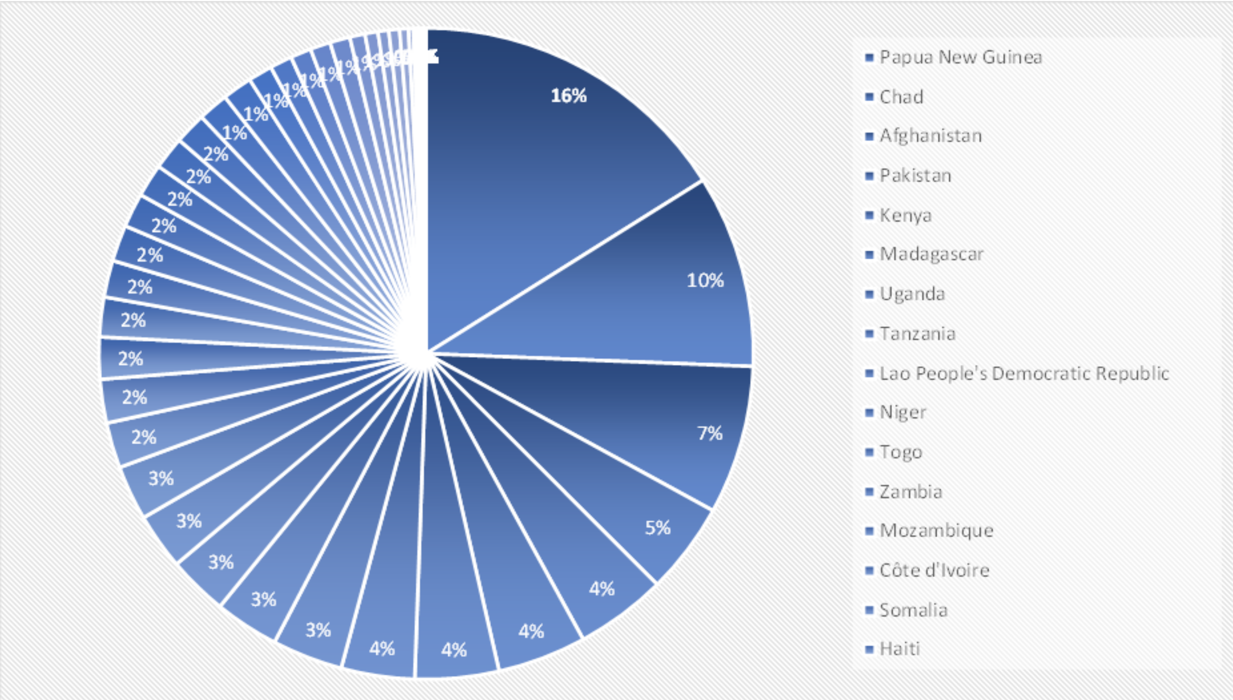
Significant efforts have been made to increase the sustainability of government revenues and financing for social services without relying on official development assistance (ODA) grants and loans. Domestic resources mobilisation, especially tax mobilisation, is one of the ways in which the international community is progressing the financing for development agenda (UN, 2015[38]). New commitments and processes have emerged to support DRM, such as the Addis Tax Initiative commitments to increase ODA dedicated to increasing tax revenues. Work has also progressed on international tax issues such as base erosion and profit shifting (BEPS) (OECD, 2020[65])
.

Most of the fragile contexts on the OECD fragility framework (51 out of the 57) received disbursements of ODA dedicated to increasing tax revenues between 2014, when data tracking began, and 2018 (OECD, 2020[15]).[6] From 2016-18, fragile contexts received USD 166 million on average per year in ODA for domestic resources mobilisation, just over 44% of the ODA received by all developing countries for this purpose (USD 374 million on average per year, including grants and loans). This works out to an average USD 2.9 million per year per fragile context.

In reality, however, there is significant variation among contexts. For example six contexts have not received any ODA to DRM since 2014 – Djibouti, Equatorial Guinea, Eritrea, Syrian Arab Republic, Yemen and the Bolivarian Republic of Venezuela. Of the USD 497 million that went towards DRM in 51 fragile contexts in this three-year period, only 16 contexts received more than USD 10 million each, together making up more than 76% of the total (Figure 2.7). Papua New Guinea received the largest amount of this ODA (USD 80 million), followed by Chad (USD 48 million) and Afghanistan (USD 37 million). Among the smallest recipients, 15 contexts received less than USD 1 million and 7 received less than USD 100 000 over the three years (OECD, 2020[15]).

Figure 2.7. A few fragile contexts receive most of the ODA towards increasing tax revenues

Proportion of the total ODA to domestic resources mobilisation in fragile contexts received in 2016-18, by context

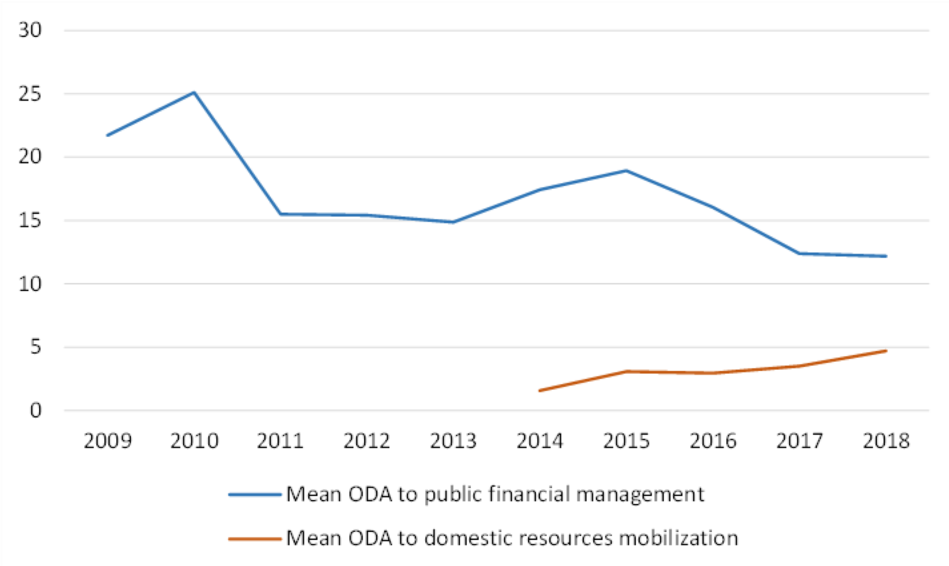


Note: The figure presents only those fragile contexts that received more than 2% of the total ODA going towards domestic resources mobilisation between 2016-2018, or over USD 10 million. This figure includes both lending and grants.
Source: OECD (2020[15]) *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?datasetcode=CRS1.

While the volume of ODA to domestic resources mobilisation is slowly increasing, programmes to support public financial management still tend to be larger in size. When looking only at the fragile contexts that received ODA for these specific purposes in each year, the average volume of ODA towards public financial management was, on average, USD 12.2 million in 2018, compared to USD 4.7 million for increasing tax revenues, as shown in Figure 2.8. Public financial management interventions can be closely linked with those aimed at mobilising domestic resources in many ways, as is the case for the EU "Collect more, spend better" programme (European Commission, 2016[66]). However, these linkages remain relatively unexplored.

Figure 2.8. The average annual volume of ODA received for domestic resources mobilisation has increased steadily

ODA to fragile contexts towards public financial management and domestic resources mobilisation, 2018 USD million, 2009-18



Note: These averages are calculated for contexts receiving ODA for DRM and PFM and they exclude contexts with a zero entry. Additionally, the figure is based on Creditor Reporting System (CRS) purpose codes 15111 (Public Financial Management) and 15114 (Domestic Resources Mobilisation). Code 15114 was first introduced in 2015 for 2014 ODA flows. Data for the first year the code was in use (2014 flows) should therefore be treated with particular caution as not all entities reported against the purpose code at that time. Some projects previously classified under Code 15111 may now be classified under 15114.
Source: OECD (2020[15]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?datasetcode=CRS1

Fiscal management has not maintained the balance between increasing tax revenues and managing expenditures and debt. While fiscal buffers in fragile contexts were relatively resilient through the 2008-2009 global financial crisis, they have now significantly eroded. As shown in the infographic of the executive summary, analysis of lending and borrowing by central governments in fragile contexts shows higher volatility than other developing contexts, and a trend of increasing deficits since 2000 (International Monetary Fund, 2020[67]). Even before the economic contraction brought on by the COVID-19 pandemic, there was growing evidence of a new debt crisis emerging in developing countries (see Chapter 5). Stability and development gains may slow or reverse (OECD, 2020[19]).

While fragile contexts themselves remain ultimately responsible for managing their financing choices, this can be extremely difficult in the face of governance, capacity and fragility challenges. While driven by legitimate governance concerns, trends such as the withdrawal of much of the donor community from general budget support over the last ten years, appear to have impacted negatively on the volume of pro-poor financing by governments and the quality and rate of improvements in fiscal reform (Orth, Birsan and Gotz, 2018[68]). Qualitatively through OECD research on financing in fragile contexts and evaluations of PFM operations, traditional donors report a loss of influence in policy dialogue with countries on the overall fiscal policy agenda (Orth, Birsan and Gotz, 2018[68]).

There appear to be missed opportunities in terms of how donors are approaching their fiscal efforts, and the growing focus on DRM may present unexplored opportunities. As a context's income increases and the role of ODA changes, tax revenues need to take on a more significant role in service provision and public investment. It is unclear whether this is actually happening, how this role relates to private models of service provision, and whether fiscal systems and political-level expectations are adequately prepared for the change. The new drive towards DRM may present opportunities in terms of managing debt, increasing the quality of policy dialogue, and increasing the quality of governance. For example, experimental evidence reinforces the idea that citizens are more likely to hold politicians and civil servants to account for poor governance and corruption if the government tries to tax them (Box 2.2).

Box 2.2. Local taxation and political participation in the Democratic Republic of the Congo

Efforts to increase the volume of taxation may be primarily motivated by the direct financial benefits.– With more resources, governments can provide more public goods such as roads, schools and hospitals and invest in their own capacities to regulate and administer the functions of the state.

There is evidence of a second benefit that is of particular importance in fragile contexts. Increasing taxation, and especially the number of domestic taxpayers, requires a degree of trust and willingness on the part of taxpayers, which in turn can increase citizens' expectations of their government, participation in political processes and government accountability through so-called tax bargaining. Research indicates that tax morale – taxpayers' intrinsic motivation and willingness to pay tax – is highly correlated with tax compliance, given the plethora of ways to evade taxation and the costs of enforcement.

A study in Kananga, in the Democratic Republic of the Congo (DRC), investigated this process of tax bargaining to build the social contract. Faced with a revenue shortfall, the provincial government of Kasai Central rolled out a randomised, door-to-door property tax collection campaign. Tax collectors went door to door to 253 households (the treatment group) to register taxpayers and make in-person appeals for payment), while another 178 households (the control group) were expected to go on their own to pay at the Tax Ministry, a standard practice in DRC.

The door-to-door campaign had two major effects:

- It increased tax compliance from 0.1% in the control group to 11.6% in the treatment group.
- It increased citizens' participation in town hall meetings and anonymous evaluations of government by about five percentage points (a 31% increase), with topics raised including demands for better governance, complaints, clarifications, and demands for better use of tax revenues and provision of public goods.

Source: OECD (2019[51]), *Tax Morale: What Drives People and Businesses to Pay Tax?*, https://doi.org/10.1787/f3d8ea10-en, and Weigel (2020[69]), "The participation dividend of taxation: How citizens in Congo engage more with the state when it tries to tax them", https://doi.org/10.1093/qje/qjaa019.

Approaches to domestic resources mobilisation and public financial management also need to consider the specific dynamics in fragile contexts, such as a complex political economy and elite bargaining; complex interactions between licit and illicit economies; and exceptionally high economic informality that can be considered the norm rather the exception (OECD, 2018[70]; ILO, 2019[71]). Careful phasing and sequencing are needed to stabilise and reform government revenues, as realistic and sustainable reform strategies can be more effective than overly ambitious expectations. With the support of multilateral and bilateral partners, advances have been made in countries' debt management capacity and domestic resources mobilisation, among other aspects of fiscal management. But limited absorptive capacities and political and practical constraints, especially in fragile contexts, can slow the pace of progress on fiscal reform and deter country buy-in (Kim, 2018[72]). To the degree that over-ambitious reform plans form the basis of fiscal and lending decisions, they could actually undermine sustainability.

Notes

[1] Desai and Forsberg (2020[1]) discuss the fragility framework in detail in the companion OECD Development Co-operation Working Paper, "Multidimensional fragility in 2020", https://doi.org/10.1787/b4fbdd27-en.

[2] The World Bank (2020[134]) List of Fragile and Conflict-affected Situations is available at http://pubdocs.worldbank.org/en/176001594407411053/FCSList-FY06toFY20.pdf.

[3] While there are many long-term positive benefits from reducing at-the-border and behind-the-border barriers to trade, the entry into force of the African Continental Free Trade Agreement could also bring a second, trade-tax based fiscal shock to be managed in the short term (OECD/ATAF/AUC, 2019[47]; World Bank, 2020[133])..

[4] These ASPIRE figures include both donor financing and financing provided by governments.

[5] Forichon (2020[9]), in another background paper to *States of Fragility 2020*, provides further analysis of the human capital dimension in analysing of fragility, https://doi.org/10.1787/430770d4-en.

[6] The data used to measure ODA for increasing tax revenue are taken from the OECD Creditor Reporting System database, using purpose code 15114 (Domestic Resources Mobilisation). This purpose code was first introduced for 2014 ODA flows, and due to incomplete coverage 2014 data should be treated with caution.

3. Increasing the development impact of private investment

Key messages

Private investment is a relatively small component of the financing landscape in fragile contexts. Fragile contexts received just 6% of developing context foreign direct investment (FDI) in 2018, or a total of USD 33.4 billion. The volume of ODA is 11.5 times that of FDI in extremely fragile contexts and 1.4 times that of FDI in other fragile contexts.

FDI is concentrated in significant volumes in a few fragile contexts, particularly those endowed with natural resources. For example, the analysis below shows that Nigeria received nearly USD 53 billion in net FDI inflows from 2009 through 2018. At the same time, there have been substantial disinvestments, for example in Angola, Iraq, South Sudan and Yemen where disinvestments exceeded total investments over the same ten-year period.

The significant decline in trade and global financial flows brought on by COVID-19, alongside ongoing structural change in the energy sector, could signal an enduring shift for international markets, changing the economic opportunities available to fragile contexts. There are signs that the shock of the pandemic may cause international firms to reorient their supply chains to ensure key inputs are physically closer to consumer markets and are not being sourced from contexts perceived as logistically high-risk, in case of further disruption to transportation and shipping. And efforts to reduce greenhouse gas emissions are causing a variety of different impacts on fragile economies, depending on their natural resource endowments and geographies. For many contexts these impacts place a renewed priority on enhancing regional and domestic markets to engage populations in local economies.

The levels of private investment vary widely across fragile contexts

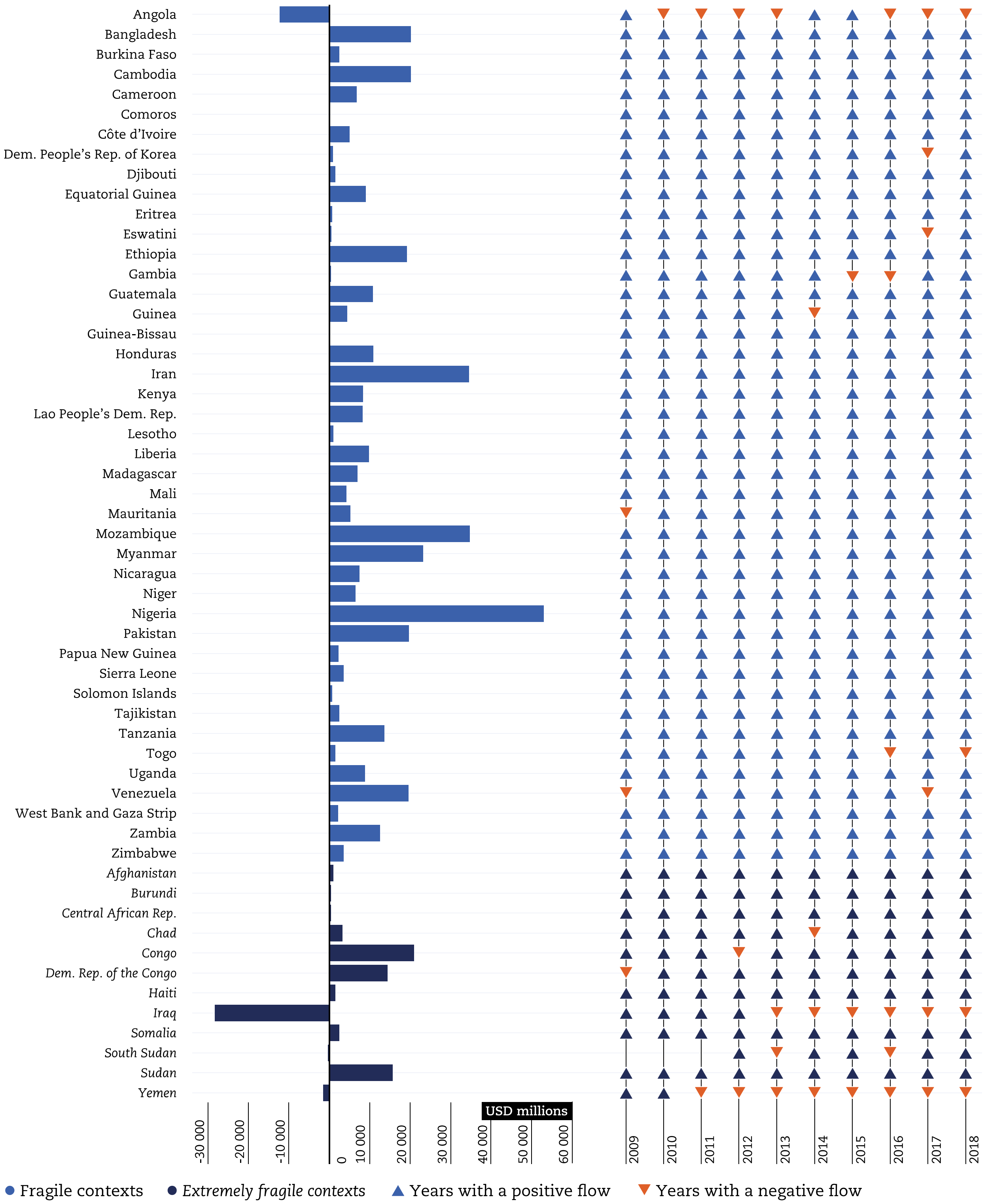
Private investment has come to be seen as an important potential source of financing for development, especially for investment in infrastructure and private sector development (OECD, 2018[39]; UN, 2020[73]) . While private investment can take many forms, one of the most closely watched indicators is the level of FDI, which consists of investments made to acquire a lasting interest in, or effective control over, an enterprise in another country. FDI can involve either so-called greenfield investment (investing in a new business or asset) or brownfield investment (taking over and/or repurposing an existing business or asset). FDI is seen as important for development because it is relatively long-term in nature; may boost productivity, innovation, and growth; create quality jobs and increase human capital and skills; and can increase domestic companies' linkages to global economic opportunities. Recent OECD work on FDI Qualities has focused on fostering a better understanding FDI's potential positive and negative development impacts (OECD, 2019[74]).

Fragile contexts receive a small proportion of global FDI, which itself has been on a general downward trajectory since 2015 (OECD, 2020[14]). In 2018, fragile contexts received just 6% of the total FDI going into developing contexts, and almost all of it – USD 30.5 billion of the total net inflow of USD 33.4 billion – was invested in other fragile contexts. On average, other fragile contexts received 2.9 times more FDI in 2018 than did extremely fragile contexts (USD 245 million versus USD 709 million).

These averages hide the significant variation in FDI flows, both among contexts and over time, as illustrated in Figure 3.1. Some fragile contexts have received significant volumes of FDI, including even the relatively isolated Democratic People's Republic of Korea (DPRK), which received overall positive net inflows of USD 821 million from 2009 through 2018. Over the same time period, Nigeria received nearly USD 53 billion in total, the largest net FDI inflows of all fragile contexts. Bangladesh, Cambodia, Ethiopia, Iran, Mozambique and Venezuela each received between USD 20 and USD 35 billion. Among extremely fragile contexts, Congo, DRC and Sudan each received between USD 14 and USD 21 billion. There have also been substantial disinvestments. Over 2009-18, Angola, Iraq, South Sudan and Yemen had net disinvestment – meaning disinvestments exceed total investments over the period – and Chad, Congo, the DPRK, DRC, Eswatini, Gambia, Guinea, Mauritania, Togo and Venezuela have all had negative inflows in at least one year.

Figure 3.1. Not all fragile contexts have seen net investments over the last decade

Foreign direct investment into fragile contexts 2009-18, 2018 USD



Notes: Negative values imply disinvestment. This figure does not include data for Libya and Syria due to data limitations. Data for South Sudan are included within figures for Sudan prior to 2012.

Source: World Bank (2020[17]), *Foreign direct investment, net inflows* (database), https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD, with the figures converted to 2018 USD using the DAC total deflator.

Access to natural resources remains a key motivator of FDI in fragile contexts. With the exception of Bangladesh and Cambodia, all of the top recipients over 2009- 18 are considered commodity-dependent developing countries[1] with economies dominated by energy (Congo, Iran, Sudan and Venezuela), minerals (DRC and Mozambique), and agriculture (Ethiopia) (UNCTAD, 2019[42]).

With the drop in commodity prices occurring alongside COVID-19, this bias towards natural resources investment means that investors are likely to shy away from fragile contexts, given that investment typically falls in response to price drops and concerns over profitability. UNCTAD estimates that investment in Africa will drop 25%-40% in 2020 (UNCTAD, 2020[75]). Sectors such as the primary and manufacturing sectors have been especially hard hit by the pandemic, with flow-on implications for government revenue (see Chapter 2).

Over the longer term, as multinational companies look to reduce risk in their supply chains, they could come to favour investment, manufacturing, and resource extraction closer to home increased diversification among suppliers, and nimbler and more automated suppliers as a strategies for managing risk (OECD, 2020[22]; Schatteman, Woodhouse and Terino, 2020[76]; Lin and Lanng, 2020[77]). Meanwhile structural change in the energy sector due to factors such as the rise of renewable energy and efforts to reduce greenhouse gas emissions is bringing a variety of different impacts on fragile economies. While demand for oil may reduce, demand for some minerals may increase alongside investments in renewables (Baker McKenzie, 2020[78]; International Energy Agency, 2020[79]).This mix of factors could result in new opportunities for some contexts, depending on their characteristics, resources and location. But many fragile contexts could find it even harder to attract FDI in the future as investors react not only to country risk, but to the risk of disruptions in the transportation of goods and personnel.

Some aspects of fragility can make it harder to attract investment and non-concessional finance

Fragility can increase the non-commercial risks that investors face, with fragile contexts ranking low on indicators of the investment climate (IFC, 2019[80]).Studies indicate that some aspects of fragility have a greater negative impact on investment than others. For example, FDI inflows appear to be reduced by low institutional quality (Alfaro, Kalemlio-Ozcan and Volosovych, 2008[81]) and high levels of corruption (Wei, 2000[82]). Investment in fragile contexts is further affected by the environment globally. Economic upheaval heightens investor concerns about risk and, in light of recent events, about political risk[2] in particular, whether due to increased protectionism, policy uncertainty around COVID-19, or concerns about governments' ability to fulfil contractual obligations or maintain currency convertibility (Kher and Chun, 2020[83]).

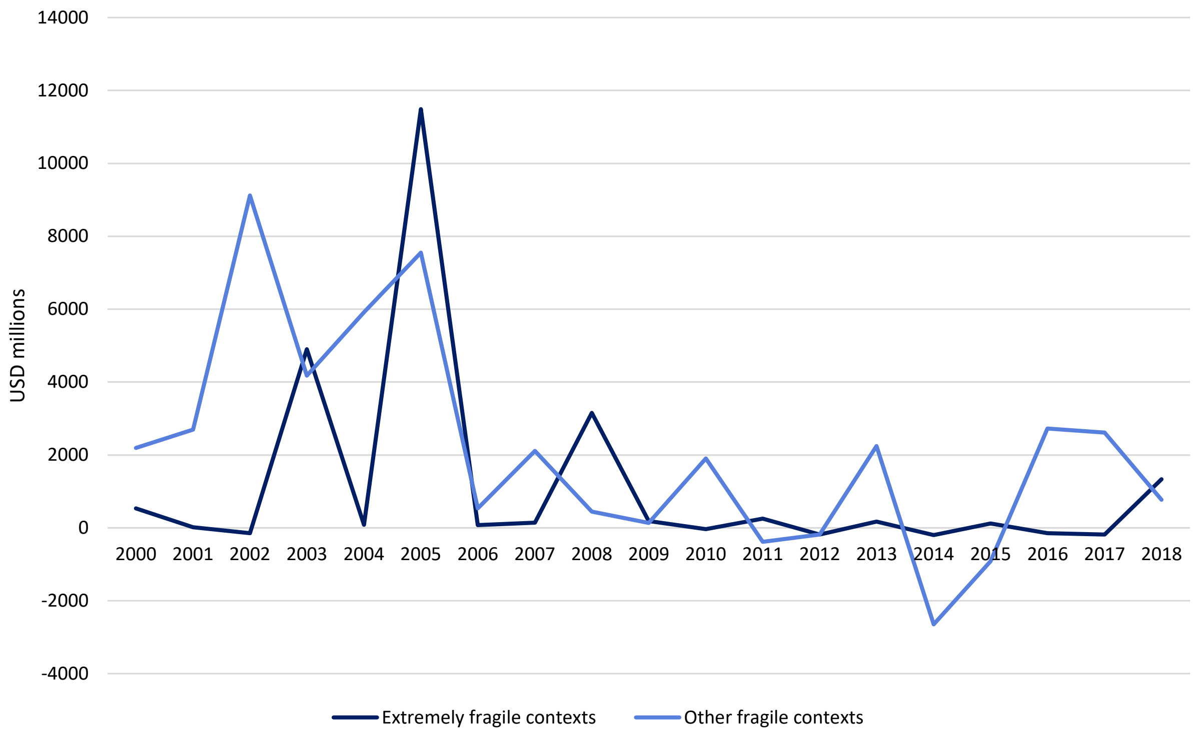
Specialised financing instruments can play an important niche role to mitigate some of the impacts of fragility on investment, but they cannot replace the need to address the underlying fragility issues themselves. It is clear that fragile contexts require a differentiated approach that is based in an assessment and understanding of the nature of their fragility and the risks investors may face there. Some instruments are directly designed to give investors confidence in the face of specific non-commercial risks, among them political risk insurance and non-honouring of sovereign financial obligations cover (MIGA, 2018[84]).

Interest in development finance approaches such as other official flows (OOF) and blended finance has increased in recent years. Such approaches usually rely on the existence of sufficient return or future revenue to repay non-concessional financing and/or the willingness of a private sector partner to invest.

OOF data, which include some blended finance operations, capture transactions that do not meet the criteria of ODA. For example, OOF data include non-concessional financing, financing with an essentially commercial or export-promoting purpose, export credits, and funds in support of private investment. Since OOF involve non-concessional lending, these flows are usually focused on sectors and projects that provide sufficient return to cover the cost of the loan, such as projects in the banking and financial sector, infrastructure, etc. Overall OOF have increased in fragile contexts, but with volatility similar to that seen in FDI, as they often comprise relatively few but very large projects (Figure 3.2). The drop in OOF to other fragile contexts seen in 2014, for example, resulted in an outflow that year of nearly USD 2.5 billion in the same year as a crash in commodity prices negatively affected investment and exports in commodity-dependant fragile contexts. These 2014 data included the repayment of nearly USD 3 billion in non-concessional financing by Papua New Guinea (see Annex 2 for further analysis).

Figure 3.2. Non-concessional flows by DAC member donors show significant volatility

OOF from DAC countries to fragile contexts, excluding offsetting entries for debt relief operations. USD millions, 2018 dollars.



Note: Additional analysis of the dip shown in the figure for 2014 is provided in Annex 2.
Source: OECD (2020[15]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?datasetcode=CRS1

In terms of blended finance, guarantees remain the favoured instrument in developing countries, and especially in fragile contexts, according to an analysis of private finance mobilised between 2012 and 2017 (Basile and Neunuebel, 2019[7]). This is likely due to shallow private equity and financial markets limiting other financing options. As with purely commercial investments, the different dimensions of fragility appear to differ in their impact on blended finance. A study by Basile and Neunuebel (2019[7]) suggests that higher levels of economic, environmental or political fragility, for instance, appeared to be associated with lower levels of blended finance, while societal and security dimensions of fragility had a less clear relationship with levels of blended finance.

Fragile contexts often face formidable private sector development challenges, including a shallow financial sector, poor business regulation and weak enforcement of property rights or other regulatory standards. Efforts to increase external private investment can help reduce economic fragility, especially when linked to responsible business conduct and improvements in the domestic business and governance environment - thus supporting local employees, suppliers, consumers, and co-investors (IFC, 2019[80]).

Efforts to address such private sector development challenges need to be undertaken in a systemic, conflict-sensitive way to increase resilience and avoid exacerbating fragility (Luiz, Ganson and Wennmann, 2019[85]). In many fragile contexts, for example, savings remain in-kind and informal; access to formal financial institutions and markets is low; borrowing costs are high; and individuals lack secure ways of storing household assets and conducting business, meaning that increasing access to financial services domestically can bring peace and resilience benefits (Anderson and Johnson, 2017[86]). In the Central African Republic, for example, the United Nations Refugee Agency and Ecobank flew in a periodic mobile bank branch to one of the most remote and fragile towns in the country, enabling displaced persons and others to securely receive and store their cash transfers and reducing their risks of physical insecurity (OECD, 2019[63]).

Development partners can play a role in linking high-investment sectors to local economic opportunities, including for small and medium-sized enterprises (SMEs) and the informal economy. As noted, foreign investments remain associated with natural resource-intensive and extractives industries. While the employment outlook is varied and may be more positive in minerals, renewables, and agriculture, some natural resource investments – for example in mining and oil – may effectively operate in enclaves and generate relatively few jobs. This risk is high where investments are capital intensive rather than labour intensive, require specialist training, and where they require few inputs from the local economy or local companies may not be set up to act as suppliers (UNCTAD, 2012[87]; Cordes, Östensson and Toledano, 2016[88]).

Building linkages between external investment and domestic business is particularly important to bring economic opportunities in fragile contexts, since the informal sector still employs the majority of workers. The informal sector generates an estimated 35% of the gross domestic product and employs 75% of the workforce in developing countries. Those proportions are even higher In fragile contexts where the informal economy makes up an even larger share of the economy, with an average of over 80% of the workforce in informal employment (OECD, 2018[70]). SMEs and micro enterprises, rather than multinationals, can be considered the mainstay of fragile context economies. But unless efforts are made to link investors to local economies and markets, there is a risk that large-scale investments will remain disconnected from the economic opportunities of local people and may even exacerbate local fragilities.

Notes

[1] According to the United Nations Conference on Trade and Development, a developing country is commodity-dependent if its commodity export revenues contribute more than 60% of its total goods export earnings.

[2] Political risk refers to the risk that government decisions, events or conditions will significantly affect the profitability of an investment or economic decision. Political risks can include expropriation of assets, breach of contract, currency inconvertibility and transfer restrictions, regulatory changes, terrorism, war, civil disturbance, and non-honouring of sovereign financial obligations. Some types of political risk can be covered by political risk insurance instruments and guarantees. For a fuller discussion, see Kher and Chun (2020[83]) at https://openknowledge.worldbank.org/handle/10986/34380.

4. Supporting households and causes through private giving

Key messages

Remittances are the single largest source of external financing in fragile contexts. Estimated remittance flows to fragile contexts nearly doubled between 2009 and 2018 from around USD 60 billion to around USD 113.5 billion.

Remittances can provide a buffer during tough economic times – especially to wealthier households – but the coronavirus (COVID-19) pandemic may disrupt this pattern. Remittances to low- and middle-income countries are projected to fall by 19.7% in 2020, with remittance volumes in some countries such as Somalia expected to fall by as much as 40%. Remittances largely fell from March 2020, before stabilising in May and rebounding in line with the stringency of containment restrictions in remittance sending countries, though there has been a lot of variation between contexts.

The average cost of transferring USD 200 is 25% higher to a fragile context than it is to developing contexts as a whole, with an average cost of USD 18.87 in extremely fragile contexts and USD 16.13 in other fragile contexts.

At the other end of the spectrum in terms of volume, private giving remains a niche source of finance in fragile contexts, at least in terms of international giving by foundations. In 2018, private donors reported to the OECD USD 116 million in private giving to extremely fragile contexts and USD 1.12 billion to other fragile contexts.

Faith-based organisations are active in fragile contexts as both funders and implementing partners. For example, the Islamic wealth tithe, *zakat*, and other sources of Islamic finance could be significant in some fragile contexts. While estimates vary, *zakat* (alms) funds may amount to several hundred billion dollars a year. In a number of Muslim-majority countries, public *zakat* agencies collect these funds and may use them for domestic or international development or humanitarian purposes, such as responding to refugee situations or droughts.

Remittances represent a significant financial resource for many households in fragile contexts.

Remittances are an individual-to-individual financial resource that supports incomes at the household level. World Bank (World Bank, 2020[16]) data indicate that overall estimated remittance flows to fragile contexts nearly doubled between 2009 and 2018, rising from around USD 60 billion to around 113.5 billion. Their volumes vary significantly by household and by context. Remittances make up a higher proportion of the economy in contexts such as Haiti, Honduras and Gambia that have high levels of emigration to wealthier neighbouring countries (Figure 4.1). While data are limited, it is often understood that remittances tend to flow to wealthier households that are more likely to be able to educate and send a household member to work abroad (Bredtmann, Martínez Flores and Otten, 2018[89]). However, remittances also flow to poorer households and refugees, including through in-kind and informal payments through *hawala* networks. For example, refugees in Cameroon have been reported to receive remittances from family in the Central African Republic, while Venezuelans source foods, medicine and other products in neighbouring Colombia (OECD, 2019[63]).

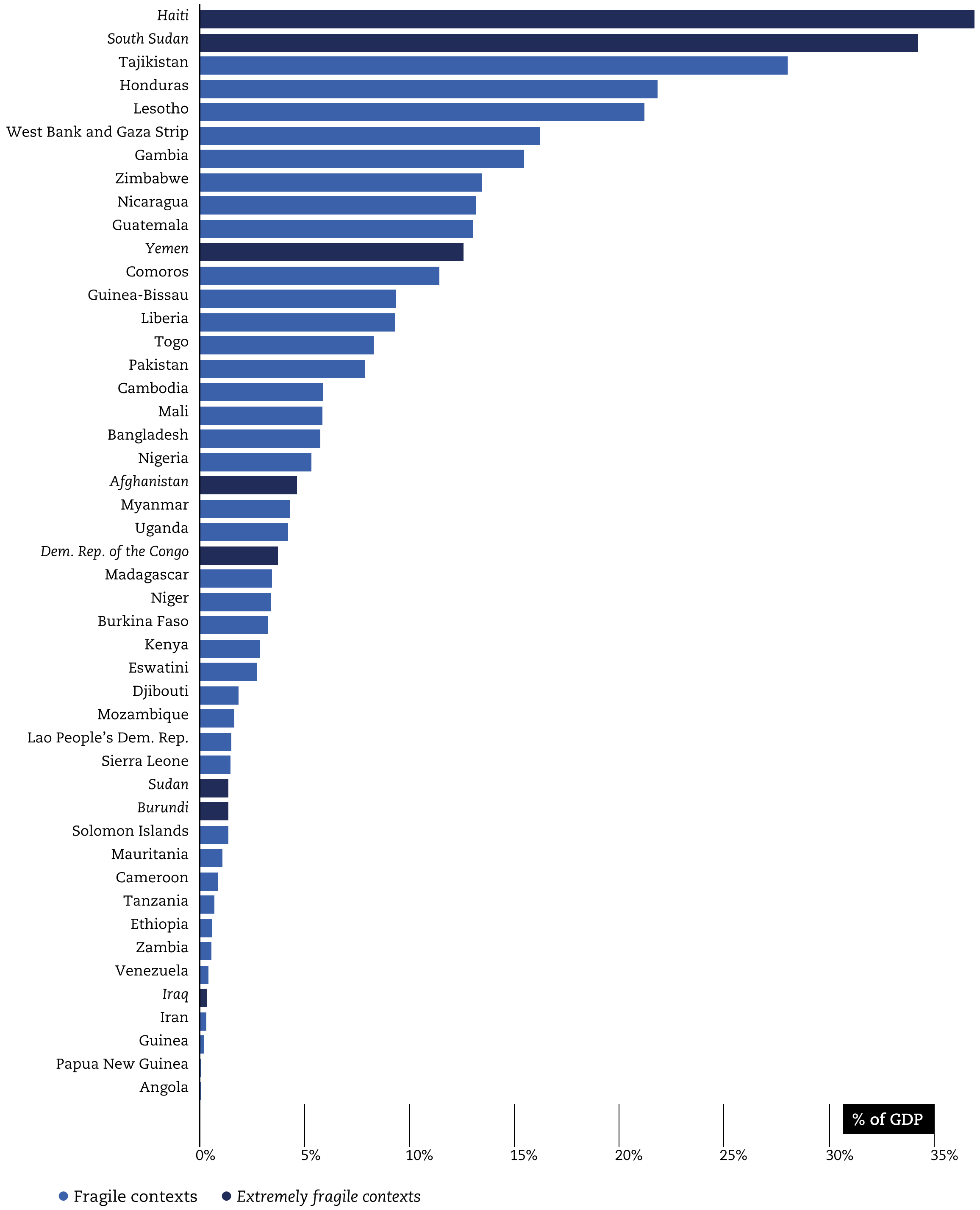
Remittances can provide a financial buffer during tough economic times. World Bank analysis has highlighted that at the country level and unlike other capital flows, remittances to developing contexts tend not to follow the ups and downs of the business cycle, but rather to increase while other capital flows decrease following sudden economic downturns, and contribute to mitigate the impact of downturns on consumption domestically (World Bank Group, 2015[90]) . The COVID-19 pandemic, however, is disrupting this pattern. With the global economic downturn hitting migrant-hosting countries hard, remittances to low- and middle-income countries are projected to fall by 19.7% in 2020 (World Bank, 2020[25]). Fragile contexts heavily dependent on remittances may be among the worst affected. Remittances largely fell from March, before stabilising in May and rebounding in line with the stringency of containment restrictions in remittance sending countries, though there has been a lot of variation between contexts (Quayyum and Kpodar, 2020[26]).

These projections underscore the importance of keeping down the costs of transmitting remittances, ensuring that migrant workers are not discriminated against in retaining employment and, as far as possible, keeping remittance channels open as an essential service (Horrocks, Rühmann and Konda, 2020[91]). The transfer costs of remittances have received significant international attention since at least 2009, when the Group of Eight (major economies) pledged to reduce the transfer cost of remittances to less than 5%. Governments and financial institutions have succeeded in increasing transparency and reducing the costs of transfer to many developing countries (Merler, 2018[92]).

Globally, the cost of transfer is 6.67% of the amount sent (World Bank, 2020[93]), but the cost of transferring remittances remains stubbornly high across the remittance corridors most used by fragile contexts (Figure 4.2). The average cost of transferring USD 200 is 25% higher to a fragile context than it is to developing contexts as a whole, with an average cost of USD 18.87 in extremely fragile contexts and USD 16.13 in other fragile contexts. Costs for some of the most expensive countries are as high as USD 39 (Angola), USD 36 (Syria), USD 26 (Zambia) and USD 25 (Mozambique).

Figure 4.1. In some fragile contexts, remittances are extremely high relative to the overall economy

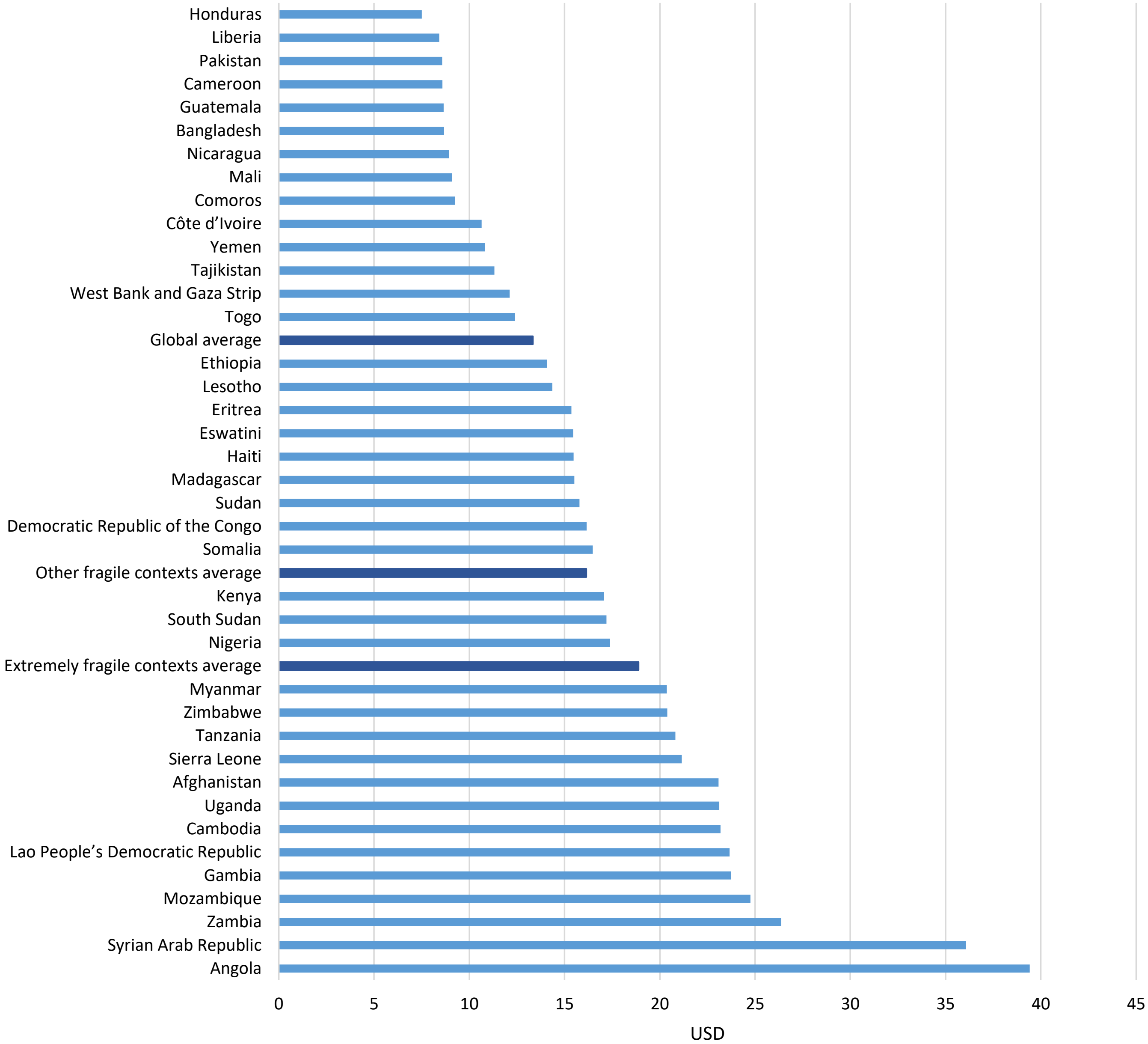
Remittances as a share of gross domestic product, 2019



Note: Values for 2019 are estimates. Remittances data are not available for all fragile contexts.
Source: World Bank (2020[94]), *Migration and Remittances Data - Remittance Inflows* (database), https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data.

Figure 4.2. The cost of transferring remittances to fragile contexts remains stubbornly high

Average cost of transferring USD 200 in 2020



Source: World Bank (2020[93]), *Remittance Prices Worldwide* (database), https://remittanceprices.worldbank.org/en.

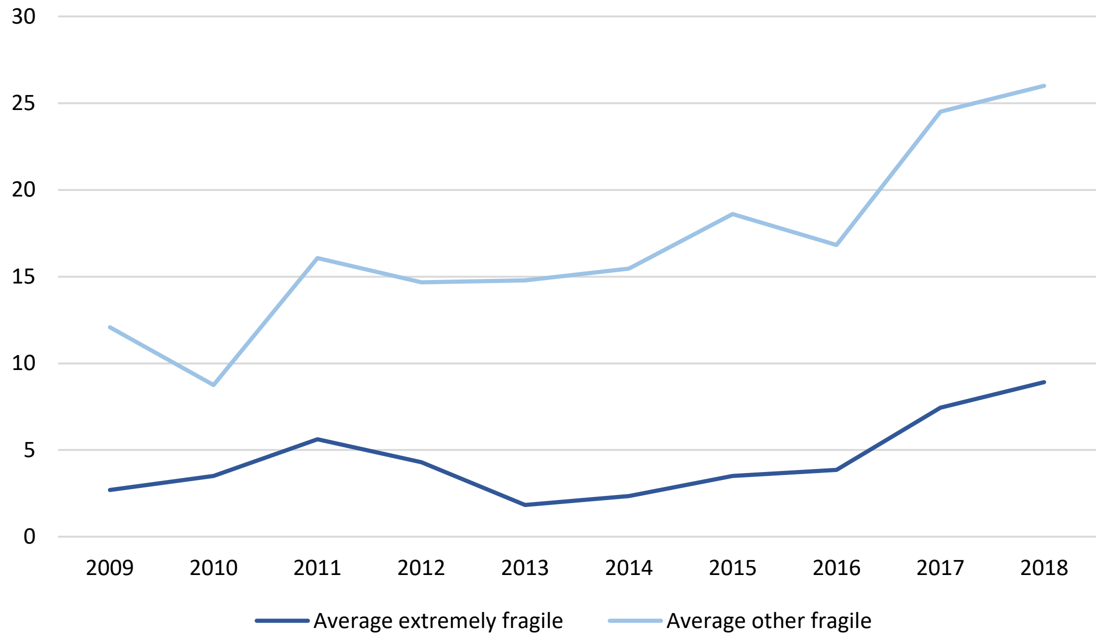
Private philanthropy and giving

Private giving and philanthropy can plan an important niche role in financing for development. Available data indicate that private philanthropic giving is a small proportion of overall financing. In 2018, private donors reported to the OECD USD 116 million in private giving to extremely fragile contexts and USD 1.12 billion to other fragile contexts (OECD, 2020[15]). Private giving is focused primarily on the health sector - it is the third-largest source of funding to this sector in developing countries[1] (OECD, 2018[95]). It is often considered risk-tolerant funding with potentially high impact, yet the majority of philanthropic giving globally (67%) goes to middle-income countries and is channelled through large international organisations such as Gavi, the Vaccine Alliance; the World Health Organization or and the United Nations Children's Fund (OECD, 2018[95]). .

While the volume of private giving to fragile contexts appears to be increasing, the increase in the 2017 and 2018 totals shown in Figure 4.3 may be largely explained by improved coverage of the OECD data. Nevertheless, among fragile contexts, extremely fragile contexts consistently receive less private development finance on average than do other fragile contexts. Over the ten-year period of 2009-18, extremely fragile contexts received on average a quarter of the amount received by other fragile contexts, or USD 38 million versus USD 153 million (OECD, 2020[15]).

Figure 4.3. Less private giving goes to extremely fragile contexts than to other fragile contexts

Average gross disbursements of private development finance to fragile contexts, 2009-18, 2018 USD million

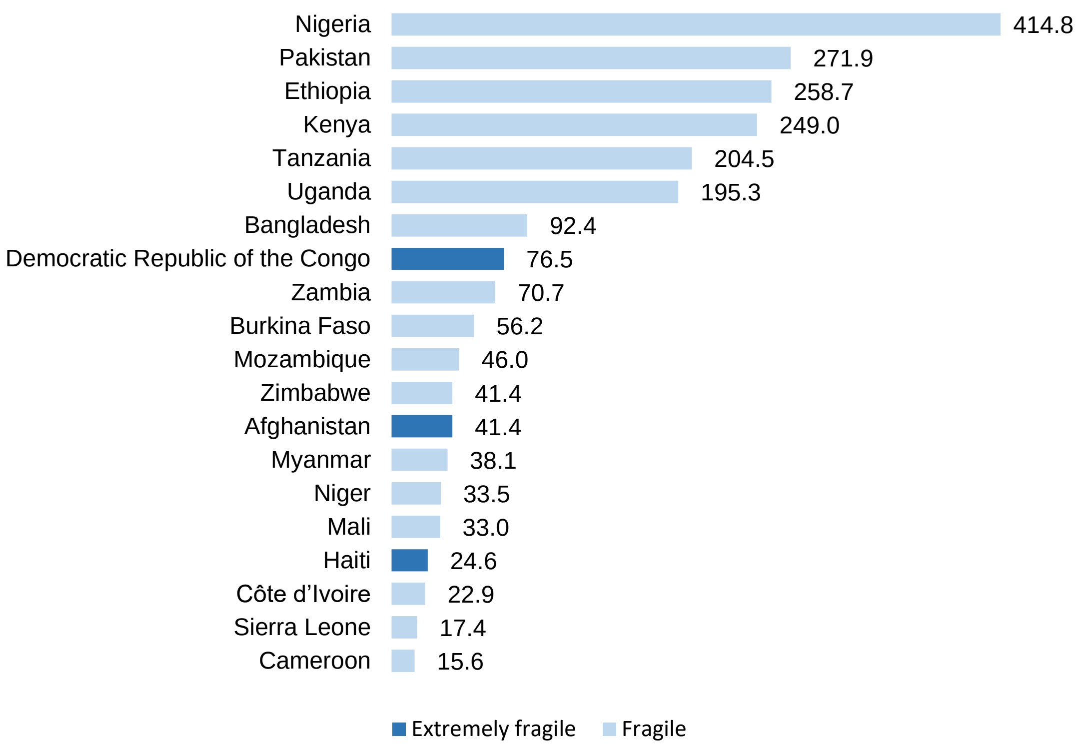


Note: These data include those foundations that report to the OECD Creditor Reporting System. The coverage of the data set improved over time and particularly from 2017 onward, which to a great extent explains the increases in 2017 and 2018 shown in this figure. These data include only foundations' bilateral development finance activities and exclude core contributions to multilateral institutions.
Source: OECD (2020[15]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?datasetcode=CRS1.

As shown in Figure 4.4, 6 fragile contexts received more than USD 100 million in private development finance in 2017-2018. At the other end of the spectrum, five other fragile contexts each received USD 1 million or less over the same two-year period (in descending order - Iran, Libya, DPRK, Equatorial Guinea and Comoros). Far and away the largest beneficiary of private development finance is Nigeria, which received USD 415 million, while the next highest recipient, Pakistan, received USD 272 million. This reflects the fact that Nigeria is a focus country for the Bill & Melinda Gates Foundation, the largest of the 33 foundations that report data to the OECD.

Figure 4.4. Top fragile context recipients of private development finance

Top 20 recipients of private development finance, 2017-2018, 2018 USD millions



Note: The dark blue bars represent extremely fragile contexts; light blue bars are other fragile contexts. These data include those foundations that report to the OECD Creditor Reporting System; they include only foundations' bilateral development finance activities and exclude, for example, core contributions to multilateral institutions.
Source: OECD (2020[15]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?datasetcode=CRS1.

The data presented in this section and Figures 4.3 and 4.4, however, omit core contributions to multilateral institutions and likely underrepresent private giving from outside of OECD member countries.

Among the organisations active in fragile contexts, faith-based organisations play a role as both as funders and as implementing partners (for example, World Vision[2]). Given that nearly one-third of fragile contexts are Muslim-majority, Islamic finance is often cited as a potential source of humanitarian and development finance. For example in Sudan, the wealth tithe or *zakat* is mandatory and collected by the state, providing financial support to vulnerable populations (Elmaghrabi, Mohammed and Jan, 2020[96]). With an industry estimated at around USD 2.5 trillion in 2018 (OECD, 2020[97]), Islamic finance includes several different forms of private giving and investment that are discussed in Box 4.1.

Box 4.1. Islamic social finance in fragile contexts

Islamic finance is a large sector that can provide a context-sensitive form of finance, especially in Muslim-majority contexts. Out of the 57 members of the Organisation for Islamic Cooperation (OIC), 25 members are also on the 2020 fragility framework. The features of Islamic finance include a prohibition on interest in financial transactions (also called *riba*), a prohibition on speculation in the financial market, and close links to the real economy or tangible assets in each financial transaction.

Aligning a share of the Islamic finance industry, which had been worth around USD 2.5 trillion in 2018, could provide meaningful resources to deliver the 2030 Agenda on sustainable development.

Islamic social finance can be a particularly effective way to channel resources towards the SDGs, including through *zakat* (compulsory alms giving), *sadaga* (voluntary alms giving) and *waqf/awqaf* (charitable endowments). Moreover, Islamic lending through *sukuk* (an asset-based security) and Islamic microfinance provide ways to mobilise resources for large-scale programmes such as increasing access to finance or building infrastructure.

Data on the contribution of Islamic finance is scarce but the potential is estimated to be large. For example, *zakat* valuation varies widely: DinarStandard estimates global *zakat* at USD 76 billion (DinarStandard, 2019[98]), while the UNHCR suggests that global *zakat* could exceed USD 300 billion (UNHCR, 2019[99]) and the Islamic Development Bank calculates global *zakat* to be worth over USD 1 trillion per annum (Rehman, 2019[100]). In a number of Muslim-majority countries, including Qatar, the United Arab Emirates, Indonesia or Malaysia, public *zakat* agencies collect these funds and may use them for domestic or international development or humanitarian purposes:

- The National Amil Zakat Agency (BAZNAS) of Indonesia is the body collecting and distributing *zakat* and alms in the country. BAZNAS operates primarily at a national level but has provided support in response to specific international issues, like refugees fleeing Myanmar (Pickup, Beik and Buana, 2018[101]).
- The International Federation of Red Cross and Red Crescent (IFRC) and the Kenya Red Cross worked with the Zakat Council of the Malaysian State of Perlis. The Council contributed USD 1.2 million in *zakat* funding to the IFRC drought assistance programme in Kitui, southern Kenya. The population of Kitui showed a clear need for humanitarian assistance, qualifying them as eligible for *zakat* distribution. As a result, access to clean water and sustainable cash crops were made possible for more than 1 million people across Kitui (International Federation of Red Cross and Red Crescent, 2018[102]).

One of the highest profile and accessible platforms internationally is managed by the United Nations High Commission for Refugees (UNHCR). UNHCR launched its Refugee Zakat Fund in 2019, with activities in Jordan, Lebanon, Yemen, Iraq, Mauritania and Egypt, as well as Bangladesh and Myanmar (UNHCR, 2019[99]). The Fund raised USD 38.1 million in the first half of 2019, surpassing the original target of USD 26 million, demonstrated the appetite for this kind of initiative.

Note: This box was contributed by the Foresight, Outreach and Policy Reform Unit of the Development Cooperation Directorate, OECD.
Source: OECD (2020[97]), "How Islamic finance contributes to achieving the Sustainable Development Goals", *OECD Development Policy Papers*, No. 30, OECD Publishing, Paris, https://doi.org/10.1787/ac1480ca-en.

Notes

[1] This assessment is based on the bilateral activities of those foundations that make their data publicly available to the OECD.

[2] World Vision, a Christian organisation, is the World Food Programme's largest NGO implementing partner, with a focus on vulnerable children (World Vision, n.d.[135]).

5. The opportunities and risks of diverse financing

Key messages

Debt sustainability is once again a core fragility issue. There were already signs of a looming debt crisis even before coronavirus (COVID-19). The proportion of concessional debt relative to total external debt has decreased markedly, and ratios of debt to gross domestic product (GDP) have increased since the debt relief provided under the Heavily Indebted Poor Countries (HIPC) Initiative. More contexts at high or moderate risk of debt distress are considered fragile on the OECD fragility framework in 2020 than were on the 2018 framework.

Fragile contexts owed at least USD 432.6 billion in debt at the end of 2018, with extremely fragile contexts owing 11% of that amount. It is likely that without mitigating measures, debt service in 2021 will be equivalent to around 82% of official development assistance (ODA) to other fragile contexts and 6% of ODA to extremely fragile contexts. These trends have reduced fragile contexts' space to respond to COVID-19 and other shocks.

Yet increasing diversity in financing can bring opportunities as well as risks: Tailoring approaches to local conditions and implementing the humanitarian-development-peace nexus can help to realise the opportunities. Even in very challenging areas – for example, financing in refugee situations – development and humanitarian actors are looking for ways to foster refugee economies and leverage new partnerships and sources of financing. This community of practice is just emerging and as it does, non-ODA resources and actors could contribute to the implementation of the humanitarian-development-peace nexus in fragile contexts.

Debt risks were increasing even before the pandemic, and these risks appear to be closely linked to fragility

Increased access to diverse financial resources has provided fragile contexts significant opportunities, but it has also brought additional risks. Though the COVID-19 crisis is exacerbating debt risks and other forms of financing are in decline, signs of a looming debt crisis were emerging before the pandemic struck. A review of data from 2004 to 2018, for example, shows two broad trends:

- Contexts with high debt risks are, increasingly, also fragile. More contexts at medium or high risk of debt distress are considered fragile on 2020 OECD fragility framework than were on the 2018 framework, and those contexts that moved off the framework are at low or medium risk of debt distress.[1]
- Fragile contexts increasingly have high debt risks. The average ratio of debt-to-GDP for both other fragile and extremely fragile contexts has increased markedly since 2011, even holding the

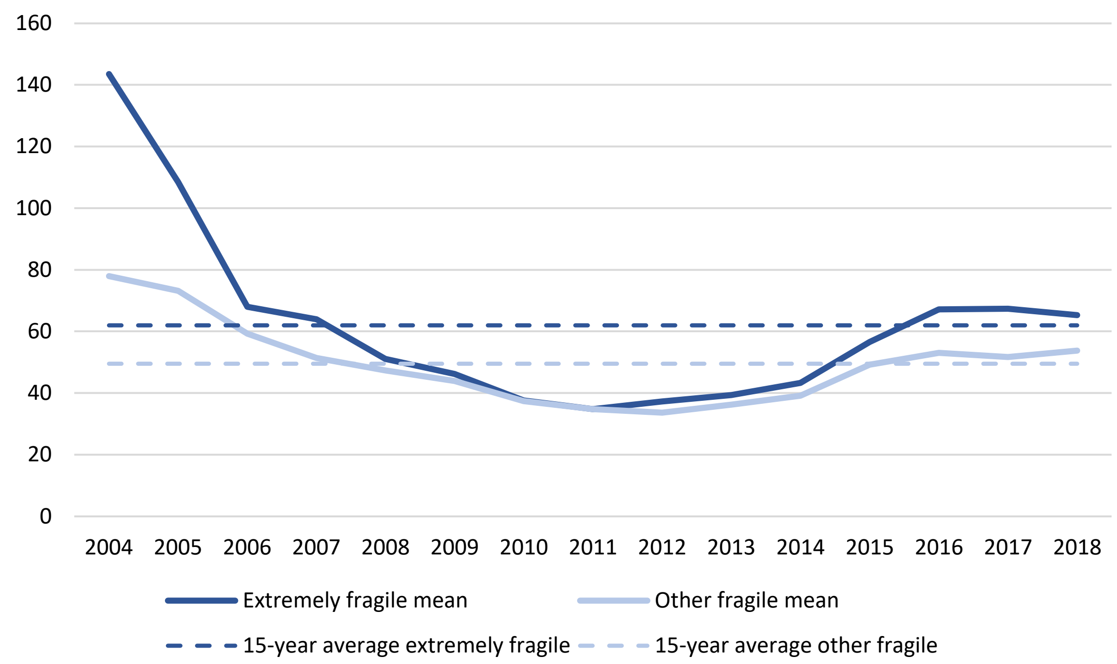
contexts constant (Thompson, forthcoming[103]). Over the last decade, the trend in fragile contexts has been high volatility and increasing deficits, as illustrated in the infographic in the executive summary.

Public debt has increased steadily since the debt relief provided under the HIPC and the Multilateral Debt Relief Initiatives through the late 1990s and 2000s. This debt relief allowed fragile contexts to reach their lowest median central government debt-to-GDP ratio of the last 15 years, at 35% in 2011 for extremely fragile contexts and 34% in 2012 for other fragile contexts. Figure 5.1 shows that since then, both extremely fragile and other fragile contexts have increased this debt-to-GDP ratio back above its 15-year average, with the sharpest increase occurring immediately after the commodity price crash of 2014.This increase in debt burden has reduced the fiscal space that fragile contexts have to respond to the impacts of COVID-19 and other shocks (OECD, 2020[19]; OECD, 2020[104]).

There also appears to be a strong connection between rising public debt and resource dependence, especially oil (OECD, 2020[49]). Fragile contexts with access to natural resource assets were able to build up large debt balances, and then faced the commodity price crash of 2014. Between 2013 and 2018, sub-Saharan oil exporters' median debt-to-GDP ratio increased from 31% to 54%, a significantly faster build-up than that of resource-poor developing contexts, or those reliant on mining and minerals (Calderon and Zeufack, 2020[105]). For example, between 2013 and 2018 Angola and Congo's general government debt levels more than doubled, and Equatorial Guinea's increased by more than five times (Calderon and Zeufack, 2020[105]; OECD, 2020[49]).

Figure 5.1. Public debt in fragile contexts has increased steadily since 2011-2012

Central government debt as a percentage of GDP, 2004-18



Note: This figure is based on 10 extremely fragile and 38 other fragile contexts. South Sudan is included in Sudan prior to 2012. Where there are data gaps, the most recent data has been used.
Source: Thompson (forthcoming[103]), "Achieving sustainable debt in fragile contexts", and data from the International Monetary Fund (2020[106]) *Central Government Debt* (database), https://www.imf.org/external/datamapper/datasets/GDD.

In the OECD fragility framework, elevated public debt-to-GDP appears as a source of economic fragility, but it can also have knock-on impacts on societal and political fragility and security. Increases in public debt ratios can negatively impact developing contexts' economic growth (Kim and Zhang, 2019[107]), risking a negative feedback loop since poor economic performance also undermines the ability to service debt and generate revenues for social and other expenditure.

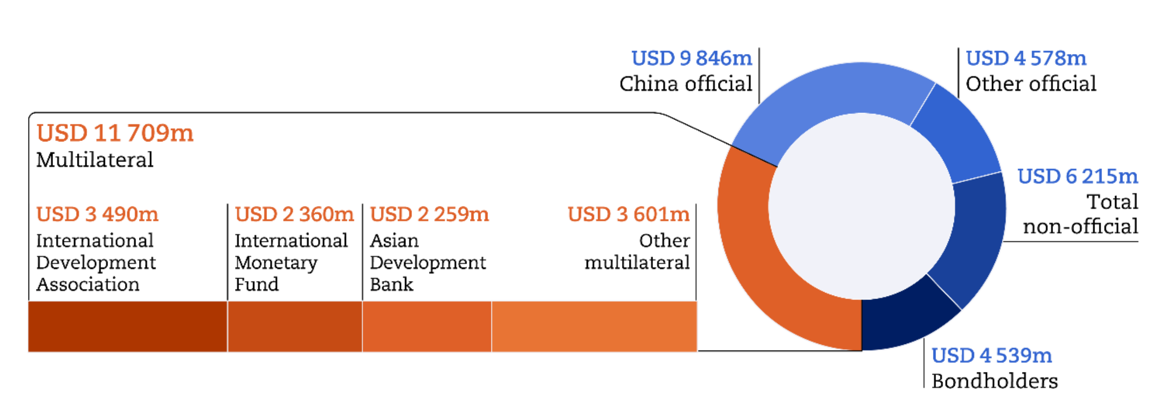
These risks have become abundantly clear in the economic and fiscal shocks flowing from the COVID-19 pandemic. The International Monetary Fund (IMF) predicts that Africa is heading for its first recession in 25 years, while Latin America and the Caribbean may experience their worst recession in history (International Monetary Fund, June 2020[108]).And while external financing has helped build economic resilience, those contexts with significant external linkages may be the worst affected by the shocks. Yet while fragile contexts have responded to COVID-19, few governments or households in fragile contexts are able to introduce the kinds of large-scale economic stimulus and social safety net responses that were initiated in Europe, especially in light of the debt burdens they are carrying.

As shown by data on the suspension of debt repayments available to low-income countries under the G20, or Group of Twenty, Debt Service Suspension Initiative (DSSI), created in response to the COVID-19 pandemic, eligible low-income fragile contexts owed approximately USD 432.6 billion by the end of 2018, with 11% of the total owed by extremely fragile contexts. Without factoring in any potential mitigating measures, the same data indicate that debt service on this amount – the combination of interest and principal payments due – amounts to around USD 37 million in 2021 (World Bank, 2020[109]).

This debt service can be compared with ODA data to provide an understanding of the relative magnitude of the fiscal challenge. Based on a comparison with the latest ODA data for 2018, it is likely that absent mitigating measures, debt service would amount to around 6% of ODA in 2021 for extremely fragile contexts and around 82% of ODA for other fragile contexts (Thompson, forthcoming[103]; World Bank, 2020[109]). As part of COVID-19 responses, some immediate steps have been taken, for example by bilateral lenders under the DSSI, and by the IMF and donors under the Catastrophe Containment and Relief Trust (CCRT), to either defer the timing of repayment or pay debt service on behalf of low-income countries. At the time of writing, these initiatives extend until the end of 2020 (DSSI) or for six months after the pandemic struck, to be potentially extended for up to two years (CCRT) (International Monetary Fund, 2020[110]; G20/ Paris Club, 2020[111]). Among official bilateral lenders, by far the largest debt service bill is owed to the People's Republic of China (China), but significant amounts are also owed to multilateral institutions, other official creditors, and private lenders and bondholders (Figure 5.2.).

Figure 5.2. Fragile contexts are facing significant debt service obligations

Debt service due in 2021 by fragile contexts, current USD million



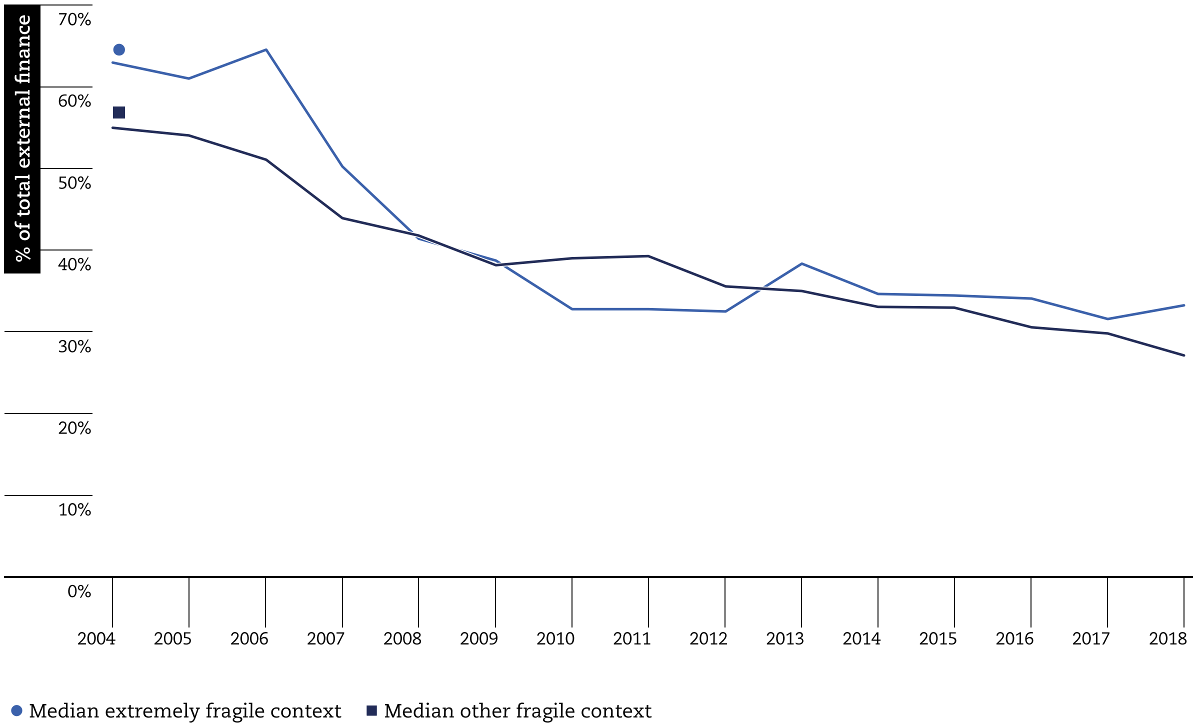
Note: These data are from June 2020. The figure is based on information provided to the World Bank for loans as of the end of 2018. The data include Eritrea, Sudan, Syria and Zimbabwe, though these are not currently eligible for the Debt Service Suspension Initiative.
Source: World Bank (2020[112]), *International Debt Statistics - DSSI* (database), https://datatopics.worldbank.org/debt/ids/.

These debt service data should not necessarily be taken as a complete indication of debt commitments, and debt service obligations may in some cases be significantly larger. Hidden debt can include debt by private entities or state-owned enterprises where the government decides to act as guarantor; loans taken on by other levels or departments of the government that may not be known to the central government; or off-budget arrangements such as resource-backed loans. In the case of Congo, the debt-to-GDP ratio was adjusted upwards by 50% in 2017. The volume of its resource-backed loans, a large proportion of which was owed to commodity trading firms, was only clarified after the repayments became unserviceable and Congo sought assistance from the IMF (OECD, 2020[49]).

New lenders and forms of debt are increasing the cost and complexity of borrowing and, where necessary, of restructuring debt (Thompson, forthcoming[103]; Bulow et al., 2020[113]). Fragile and extremely fragile contexts are borrowing from a more diverse group of lenders, and the overall proportion of concessional debt in external debt has decreased (Figure 5.3). Traditional bilateral lenders have reduced their lending, while borrowing from other bilateral lenders such as China, the Russian Federation and Saudi Arabia has increased. Commercial borrowing also increased from 2010 through 2018, including Eurobond issuances by 16 low-income developing countries, 12 of which are fragile contexts.[2]

Figure 5.3. Concessional debt has decreased as a proportion of total external debt since HIPC

Concessional debt as a proportion of total external debt, 2004-2018



Note: This figure is based on data for 11 extremely fragile contexts and 39 other fragile contexts. Missing values are excluded from the calculation. South Sudan is included in Sudan prior to 2012.
Source: World Bank (World Bank, 2020[109]), *International Debt Statistics* (database), https://data.worldbank.org/products/ids.

Given this diversity, fragile contexts now face more varied debt risks than during the pre-HIPC era. This places a premium on fiscal management and the ability to service and manage debt as components of resilience. Black swan events – major, unforeseen shocks –occasionally happen, and the most effective time to intervene is before they occur. Dealing effectively with unsustainable debt takes time, institutions, and resources on the part of both borrowers and lenders. Debt sustainability, moreover, is not merely a technical fiscal exercise. It also requires expertise in fragility and the political economy. The quality and sequencing of financing as well as a realistic pace of reform become ever more important in a high-debt fragile context. Understanding debt dynamics on a case-by-case basis will be important for resolving crises while preserving positive incentives for borrowers and lenders. Building contexts' capacity to negotiate, assess and contract debt can help address incentive issues (Thompson, forthcoming[103]).

New financing opportunities are emerging – but they differ from those in more stable contexts

The Addis Ababa Action Agenda (AAAA) and the Sustainable Development Goals brought with them the promise of increased diversity and innovation in financing for development. The importance of recruiting financing streams and helping them work more effectively and flexibly together to build resilience is recognised in analytical work such as *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict* (UN/World Bank, 2018[8]); international agreements such as the Global Compact on Refugees (UNHCR, 2018[114]); and reform processes such as the Review of United Nations Peacebuilding Architecture (UN, 2019[115]).

But the reality of what this looks like, and the actions partners could take, are very different than in more stable contexts. Financing choices need to be sensitive to the drivers of fragility and the local political economy, and they need to take a risk-informed approach to the type of financing, the nature of engagement and expectations about the results.

Financing approaches need to be tailored to the needs of fragile contexts

Care must be taken to adopt a tailored approach, since financing challenges and a lack of opportunity can be both a result, and a cause, of fragility and conflict. The increasingly popular tool of blended finance, for example, responds to fragility much like purely private investment and remains a selective aid modality in fragile contexts. A 2019 analysis of 2012-17 data found that those contexts with no private financed mobilised scored significantly worse across all dimensions of fragility[3] (Basile and Neunuebel, 2019[7]). Greater private finance was mobilised in contexts with lower economic, environmental and political stability, while societal and security fragility did not bear as strongly on amounts mobilised. Where private finance was mobilised, the size of the deals was less than half what it was in more stable contexts (USD 15 million versus USD 42 million), and investors into fragile contexts were more likely to come from other developing countries than were investors into other developing contexts (Basile and Neunuebel, 2019[7]).

This context specificity speaks to the importance of targeting the size and nature of the operation and supporting local economic actors in development. Local knowledge and partners are critical to assessing risks, tailoring financing packages to local conditions, and ensuring they support a broader strategy of stability, policy reform and economic opportunity. The French Development Agency, for example, focuses its private sector strategy in fragile contexts on recovery and development of the local private sector, supported by mechanisms such as the Minka Peace and Resilience Fund (AFD, 2019[116]).

Some fragile contexts may be pushing for large-scale shifts in their financing profile at a faster pace than their institutional capacity and business environment can support. While ambition is needed, being overly ambitious about what can be achieved in the short term can backfire. Mobilising private sector financing needs to be undertaken in the context of an improved business, regulatory and governance environment (Basile and Neunuebel, 2019[7]). Realistic and sustainable reform strategies can be more effective than overly ambitious expectations. Assessments of efforts to improve contexts' debt management capacity and domestic resources mobilisation, among other aspects, have found that in fragile contexts, limited absorptive capacities and political and practical constraints need to be considered in terms of the pace of progress and the ability to secure country buy-in (Kim, 2018[72]).

Fragile contexts not only face special needs relative to more stable contexts, they also bring a different – and changing – set of actors to the financing table. Bilateral development partners are important actors in fragile contexts, bilaterally as shareholders in the multilateral system (OECD DAC, 2019[117]) and through their diplomacy. The majority of development finance in fragile contexts is bilateral: in 2018, 63% of DAC members' ODA was bilateral (Desai, 2020[34]). And lenders outside of the DAC such as China, and private lenders, have invested significantly in fragile contexts (see Figure 5.2).

Multilateral institutions have long played a special role in fragile contexts, especially the UN system. But this multilateral ecosystem is changing. The role of the UN is shifting and its peacekeeping architecture is under review (OECD, 2020[118]). Economic institutions such as the IMF are also playing an increasing role. The IMF has a central role in debt, public financial management and macro-stability issues, and is increasingly active in fragile contexts. See, for example, recent work on designing tax policy in fragile contexts such as Mansour and Schneider (2019[119]). Diplomatic efforts by bilateral actors, regional organisations such as the Economic Community of West African States or the African Union, and even security organisations such as Organization for Security and Cooperation in Europe can also help create a suitable operating environment for mobilising financing and reform (Marley and Forsberg, 2020[120]).

As fragile contexts seek to foster greater private investment and tax revenues, macroeconomic and microeconomic stability and institutions will become ever more important. These include the IMF, development finance institutions, multilateral development banks and other economic actors that provide financing and technical assistance and collaborate with a different set of partners in government, civil society or the private sector. Yet there is a gap here. Such institutions may not have a permanent field presence in fragile contexts, limiting their local knowledge. On the bilateral side, few partners apart from the United Kingdom's Foreign, Commonwealth and Development Office (formerly the Department for International Development) include economists in their embassies and field development agencies. More broadly, there is much still to learn about how to undertake effective economic reform and mobilisation of financing in fragile contexts in a way that is conflict-sensitive, supports peace and resilience, and takes account of their especially challenging governance, capacity, physical and human capital constraints.

The humanitarian-development-peace nexus is an integral part of the financing picture

A significant proportion of ODA is made up of humanitarian and/or peace financing, in addition to development financing: DAC members gave 25% of their bilateral ODA in fragile contexts in 2018 to the humanitarian pillar, 62% to the development pillar and 13% to the peace pillar[4] (Desai, 2020[34]). Each element of the nexus brings its own principles, architecture, partnerships and comparative advantages.

Financing across the nexus can be seen as financing that supports development, humanitarian and peace actors to build on their comparative advantages and work together when needed to achieve outcomes more effectively and efficiently. The financing pillar of the DAC Recommendation on the HDP nexus takes a two-track approach. It refers to both evidence-based financing strategies as well the characteristics of financing that make it nexus-ready– that is, predictable, flexible, multi-year financing that promotes better collaboration where it is appropriate (OECD DAC, 2019[117]).

A meta-analysis of OECD Peer Reviews showed that all DAC members' development policies have some degree of alignment with the Nexus Recommendation, especially in terms of their internal coherence between humanitarian, development and peace interventions. These have in turn had an impact on financing strategies. For example:

- Emerging practices out of Sweden, Denmark and the UK, for example, demonstrate a willingness to make funding mechanisms more flexible and predictable through the use of resilience funds, flexible mid-year funding allocations, and long-term framework agreements for trusted, vetted implementing partners (OECD, 2019[121]; OECD, 2016[122]; OECD, 2014[123]).
- Denmark, for example, has taken significant steps to ensure that the support it provide to the multilateral system is predictable and flexible, by concluding multi-year framework agreements with the UNDP, UNFPA and the World Food Programme, and leaving the majority of its contributions un-earmarked so that aid can be rapidly deployed where it is needed (DANIDA, 2018[124]; DANIDA, 2018[125]).
- Canada, uses the Peace and Stabilization Operations Program (PSOPs) to provide quick and flexible funding to conflict prevention, dialogue, stabilization and peacebuilding (Government of Canada, 2020[126]).
- France, through its Minka Fund, has shown that it is possible to rapidly deploy conflict prevention and peacebuilding assistance to crisis areas, working with local governance institutions and supporting private sector interventions for early economic recovery and job creation (AFD, 2019[116]).
- Meanwhile in response to COVID-19, both Spain and Korea have developed whole-of-government response strategies bringing together all members of the international development co-operation system, allowing a focus on both immediate life-saving interventions as well as the longer-term

socio-economic recovery (Spanish Ministry of Foreign Affairs, European Union and Cooperation, 2020[127]; Donor Tracker, 2020[128])

As actors look to expand and diversify financing[5], the humanitarian-development-peace (HDP) nexus provides a useful framework for developing financing strategies, programming and co-ordination among these actors (OECD DAC, 2019[117]), potentially as part of more integrated approaches to financing such as the integrated national financing frameworks that are part of the Addis Ababa Action Agenda (UN, 2019[129]). This could help achieve more effective financing between actors in the nexus, while moving towards greater self-reliance over a long planning horizon, by gradually shifting expectations towards government and private financing.

The humanitarian sector has a relatively co-ordinated funding appeal process to save lives and alleviate suffering.[6] However, the majority of humanitarian aid is channelled through the multilateral system and non-governmental organisations, and there is no comparable mechanism for prioritising and soliciting development funding at the global or country level. Country ownership remains critical in development aid, even more so than for humanitarian aid. While by default, strategic leadership should come from the national government, this can be challenging to ensure in practice. In situations where the government has an active part in ongoing conflict, the UN Resident Coordinator has a critical role in convening humanitarian, development and peace actors effectively. Risk-informed, joined-up analysis involving a range of stakeholders can facilitate a shared understanding of risks, vulnerabilities and capacities.

The importance of the financing pillar of the HDP nexus comes through strongly, for example, in research on financing in refugee situations (Box 5.1), or in work on preparing for and managing the transition away from UN peacekeeping missions, and sustaining capacity and economic stability post-withdrawal (OECD, 2020[118]).

Building coherent financing strategies across the HDP nexus is highly relevant in the context of COVID-19 response and recovery plans (OECD, 2020[19]). The pandemic response will require emergency responses, longer-term socio-economic recovery, and sustained efforts to address the drivers of conflict. Ensuring that many different types of development, humanitarian and peace financing work effectively together can help the scarce resources available make a greater positive contribution to stability.

Box 5.1. Financing for refugee situations

Financing for refugee situations provides a strong example of how financing strategies need to be tailored to fragile contexts and why an awareness of the HDP nexus is needed to make financing fit for purpose there.

Refugees are hosted overwhelmingly in developing countries and usually in fragile contexts: as of 2019, all of the top ten contexts of origin for displacement situations are on the fragility framework, as are seven of the ten top developing contexts hosting refugees. Important advances have been made in responding to refugee situations and strengthening co-operation among the diverse actors who play a role in supporting refugees and the communities that host them. For example, the Global Compact on Refugees (2018) and the Global Refugee Forum (2019) worked to increase the mobilisation of resources from non-traditional actors, ease pressure on host countries and enhance refugee self-reliance, among other goals.

But financing has not yet realised the potential of this new approach. While 77% of refugees are in protracted situations of more than five years (UNHCR, 2020[130]), most of the funding available (72%) is humanitarian and so oriented towards the short-term response (OECD, 2019[63]). Diplomacy also has an important role to play, given the sometimes-difficult politics of providing refugees with long-term financing and social services.

Based on case studies in the Central African Republic, Colombia, Lebanon and Uganda, the OECD identified seven good practices to help improve the quantity and quality of financing for refugee situations:

- Due to their protracted nature, refugee situations require development and peace interventions, in addition to humanitarian responses.
- Financing is most effective when it goes hand in hand with an enabling policy environment, including access to social services and documentation.
- To make the most of the money available, financing systems and tools need to be adapted to fit the reality of mobile populations.
- Support for local as well as national systems can help to better meet needs, including through financing and capacity building.
- Promoting refugee self-reliance through education, work and entrepreneurship is a smart financial choice, benefitting both refugees and the host country.
- Grants dominate but where funds are limited, loans can be useful as long as they are as concessional as possible. Mechanisms are emerging that mix grants and loans where there are enduring benefits for the country as a whole.
- Linking up across key actors can improve co-ordination and data. Southern actors are active in some regions.

While these principles were intended specifically for refugee situations, they have broader relevance for fragile contexts, especially those with significant numbers of internally displaced persons or transhumance.

Source: OECD (2019[63]), *Financing for refugee situations*, https://doi.org/10.1787/02d6b022-en; UNHCR (2020[130]), Global Trends: Forced Displacement in 2019, https://www.unhcr.org/globaltrends2019/

Notes

[1] This assessment is made on the basis of the low-income countries for which the International Monetary Fund publishes debt sustainability analyses, normally on an annual basis.

[2] The IMF uses the low-income developing country grouping, comprising 59 diverse countries, for analytical but not operational purposes. Though some countries in this grouping have accessed international capital markets, their economic structures, per capita income levels and capital market access are not sufficient enough for them to be classified as emerging market economies.

[3] The analysis was based on OECD Creditor Reporting System data on private finance mobilised between 2012-17 to the contexts categorised as fragile by the OECD in 2018.

[4] The list of OECD purpose codes for ODA that map to each pillar of the HDP nexus is included in "States of fragility and official development assistance", another background paper to *States of Fragility 2020* by Desai (2020[34]) . This list is also available on the States of Fragility platform at www3.compareyourcountry.org/states-of-fragility/overview/0/.

[5] For example, the Addis Ababa Action Agenda calls for more integrated approaches to financing through integrated national financing strategies (UN, 2019[129]), which bring together public, private, international and domestic sources.

[6] Not all humanitarian actors use this appeal process, among them the European Commission's European Civil Protection and Humanitarian Aid Operations and many non-governmental organisations.

Annex A. Methodological note

The sources of financial statistics are cited in the text using the most recent values, usually from 2018. Due to data limitations, not all data are available for all contexts. Where values have been imputed, they use the latest available value, as indicated.

In time series, projected values are identified with "p", and estimates are identified with an "e". Trend analysis in this paper uses the same cohort of fragile contexts defined in *States of Fragility 2020* to allow consistency in comparison over time.

Unless otherwise stated, statistics cited in this report are deflated to United States dollar (USD) constant 2018 and represented in USD million disbursements. Unless otherwise stated, statistics are deflated using the DAC total deflator (OECD, 2020[131]). Values after 2019 (estimates or projections) have not been deflated.

For information on aid statistics, this paper uses the OECD DAC aid statistics database, and specifically the Creditor Reporting System (CRS), for detailed official development assistance (ODA) statistics by sectoral purpose code and recipient. It further uses DAC2b for information on other official flows (OECD, 2020[132]). The latest available year of reporting is 2018, and these data are reported as gross ODA disbursements in USD 2018 prices. Aggregate information on ODA is taken from "States of fragility and official development assistance" a companion working paper by Desai (2020[34]); unless otherwise indicated, these figures represent net ODA disbursements in USD 2018 prices. Any analysis comparing extremely fragile, other fragile and non-fragile contexts does not include regional or unspecified ODA. While most of the analysis in the Desai (2020[34]) paper focuses on DAC member donors, the analysis in this working paper, unless otherwise stated, includes all development partners that report their financial information to the CRS.

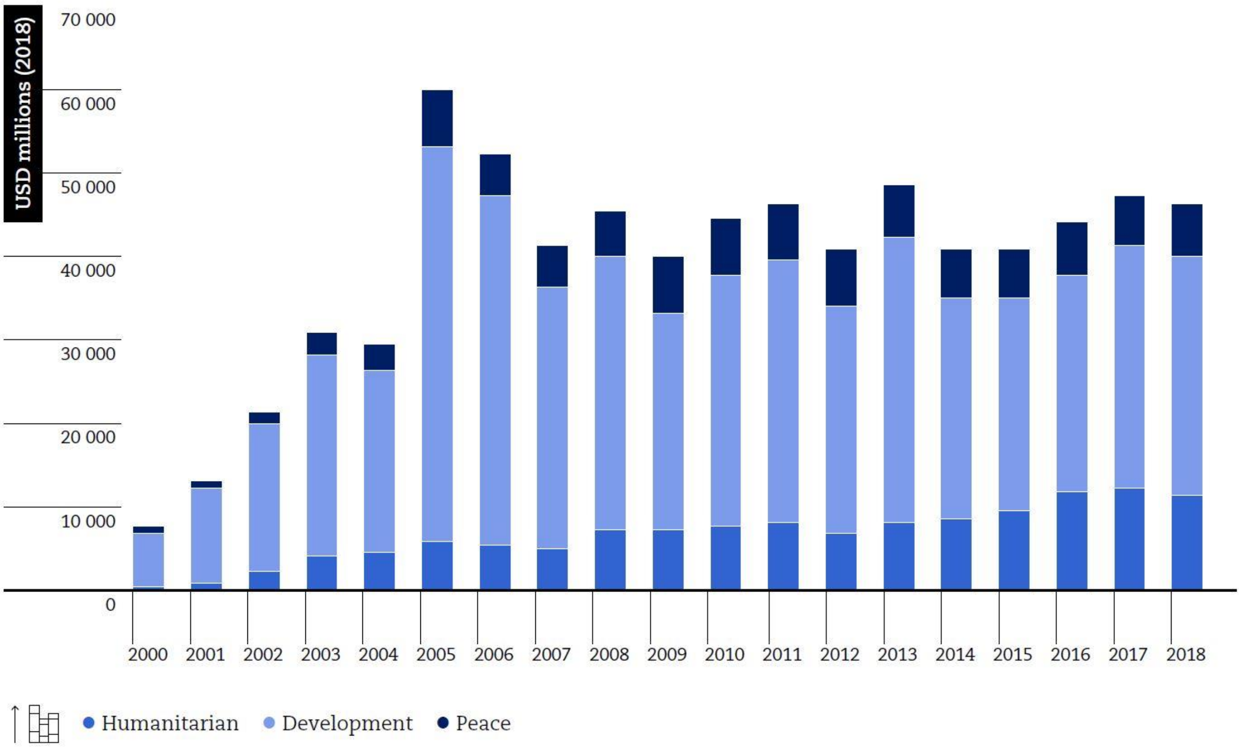
When reference is made to OECD DAC members, these are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union Institutions, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States. These DAC members, with the exception of European Union Institutions, may also be referred to as DAC member countries.

Annex B. Supplemental data

Official development assistance across the humanitarian-development-peace nexus

Figure A B.1 is based on analysis of official development assistance (ODA) from DAC members by Desai (2020[34]) in "States of fragility and official development assistance", another background paper to the *States of Fragility 2020* report that broadly reviews ODA in fragile contexts. More information on the mapping of ODA purpose codes from the OECD Creditor Reporting System (CRS) to the dimensions of fragility from the OECD multidimensional fragility framework can be found in *States of Fragility 2018* (OECD, 2018[70]). The author of this paper updated this mapping to reflect new purpose codes in the CRS schema. Additional information on the mapping of ODA purpose codes to each component of the humanitarian-development-peace (HDP) nexus can be found on the States of Fragility Platform at www3.compareyourcountry.org/states-of-fragility/overview/0/.

Figure A B.1. DAC bilateral ODA to fragile contexts across the HDP nexus, 2000-18



Note: This figure is taken from Desai (2020[34]), which includes the list of purpose codes that map to each pillar of the HDP nexus. This purpose code list is also available on the States of Fragility platform, www3.compareyourcountry.org/states-of-fragility/overview/0/.
Source: OECD (2020[132]), "Detailed aid statistics: ODA Official development assistance: disbursements", in *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00069-en; Desai (2020[34]), "States of fragility and official development assistance", https://doi.org/10.1787/44bbde61-en.

Other official flows

This section looks at examples that illustrate the volatility in other official flows (OOF), most notable a peak in 2005 of over USD 19 billion, and a trough in 2014 of USD -2.65 billion, which is also presented in Chapter 3. Note that these figures exclude the offsetting values included in OOF reporting to account for debt relief operations.

In 2005, Iraq received significant volumes of other official flows, totalling USD 10 billion in a single year. In the same year, Iran received USD 4.7 billion and Nigeria received USD 2.3 billion (Figure A B.2).

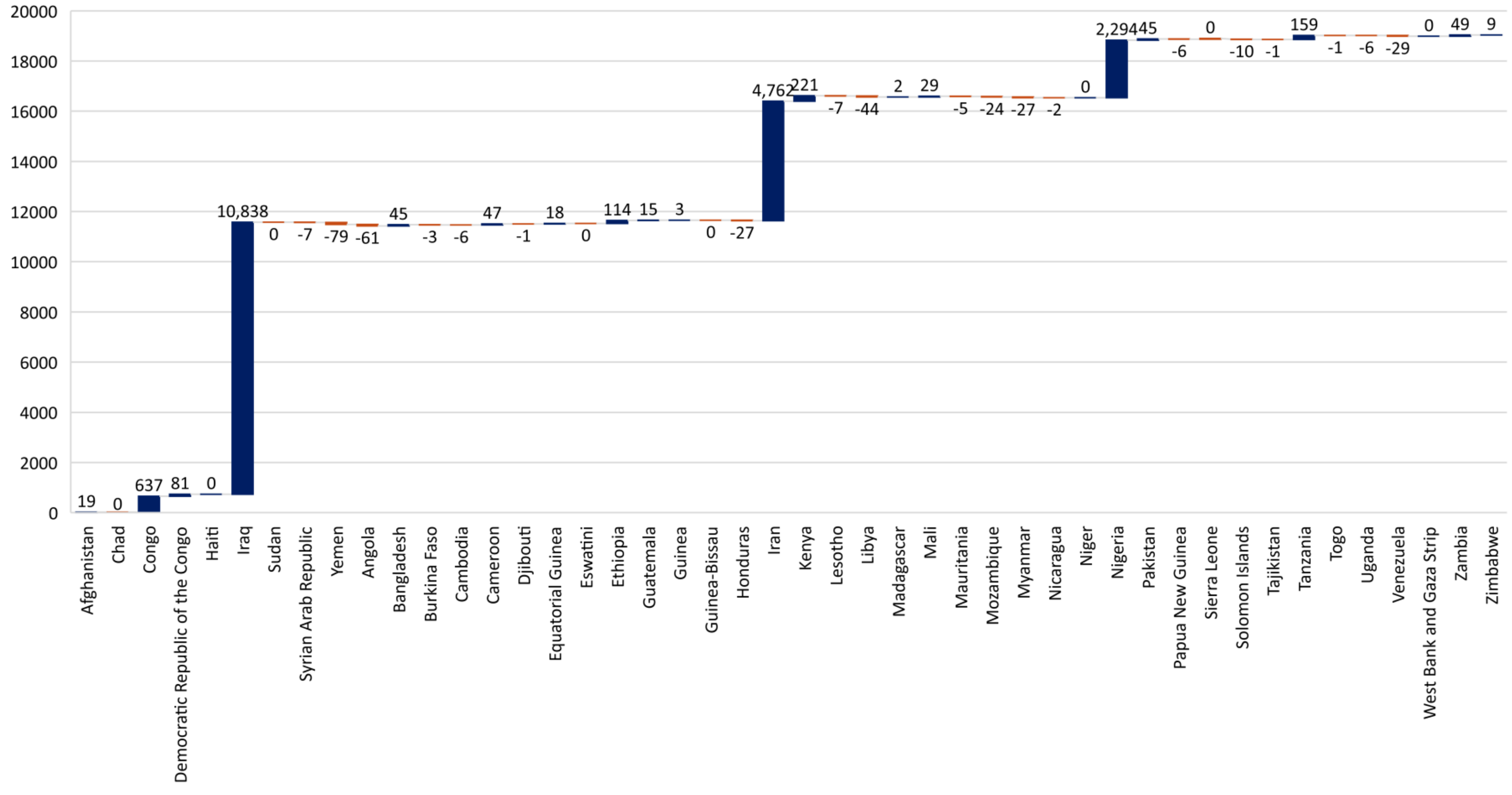
In 2014, the year of the commodity price crash, Papua New Guinea experienced a large outflow of OOF of more than USD 2.9 billion, as seen in Figure A B.3. In the same year, 31 more fragile contexts experienced negative outflows, with the outflows exceeding USD 100 million in 6 of these contexts (Angola, Iran, Liberia, Pakistan, Papua New Guinea and Venezuela).

Between 2009 and 2012, Iran also experienced very large outflows of between USD 2.1 billion and USD 3.6 billion per year. Meanwhile, between 2014 and 2018, between USD 87 million and USD 914 million in OOF left Venezuela per year.

Note that in the figures below, the vertical axis shows the total net flows for all fragile contexts in that year, while the individual bars and numbers refer to the net flows for that specific fragile context in that specific year. Net flows consist of a mix of inflows and repayments. Dark blue shading is used for contexts with positive net flows (that is, where inflows exceed repayments), while orange shading is used for contexts with negative net flows in that year (that is, where repayments exceed inflows).

Figure A B.2. Other official flows spiked in 2005, totalling USD 19 billion

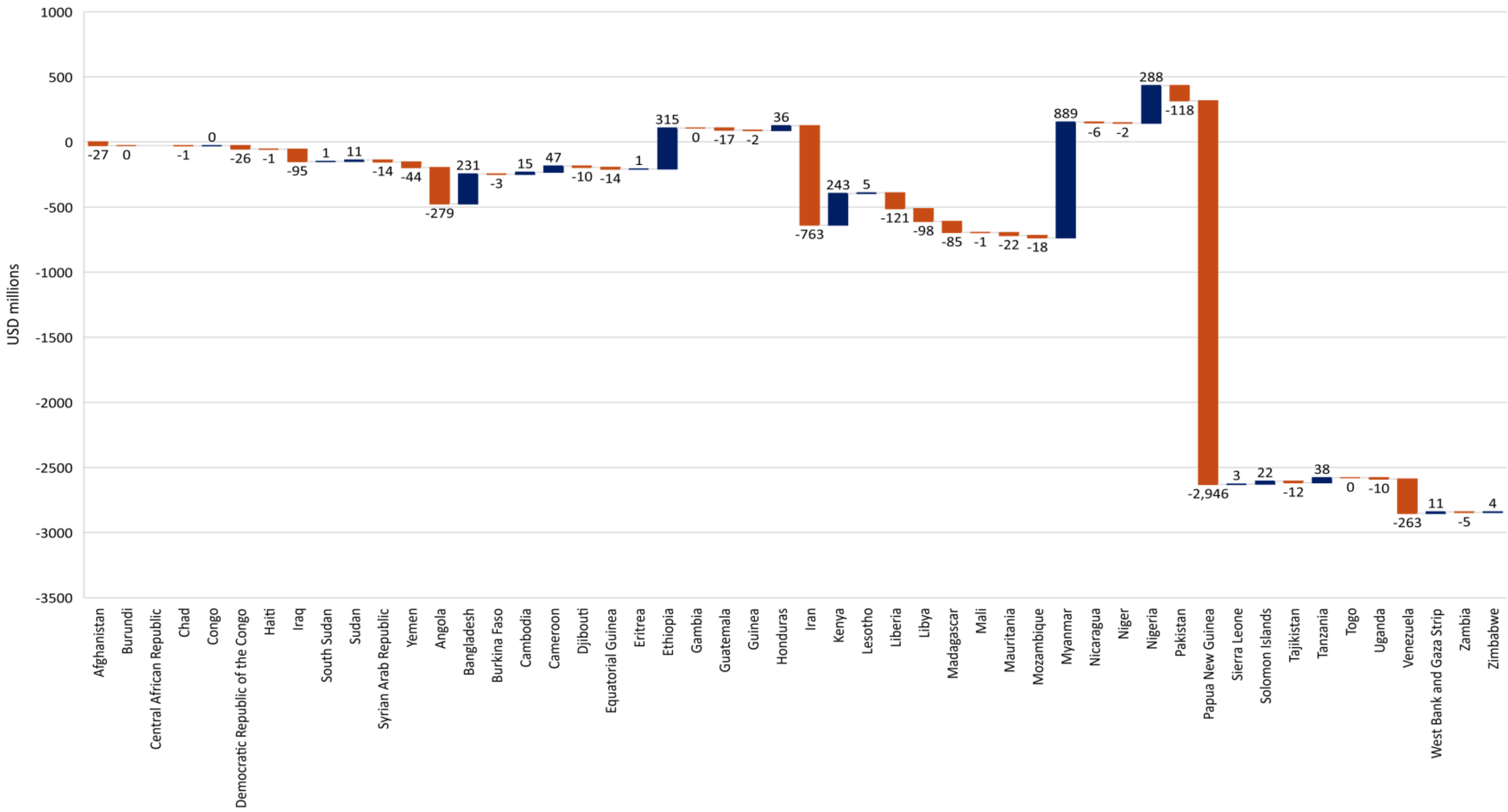
OOF in 2005 from DAC countries to fragile contexts, excluding offsetting entries for debt relief operations. USD millions, 2018 dollars



Source: OECD (2020[15]), *Creditor Reporting System (database)*, https://stats.oecd.org/Index.aspx?datasetcode=CRS1.

Figure A B.3. Other official flows dipped in 2014, totalling USD -2.65 billion

OOF in 2014 from DAC countries to fragile contexts, excluding offsetting entries for debt relief operations. USD millions, 2018 dollars



Source: OECD (2020[15]), *Creditor Reporting System (database)*, https://stats.oecd.org/Index.aspx?datasetcode=CRS1.

References

AFD (2019), *Minka: The Peace and Resilience Fund*, Agence Française de Développement (AFD), Paris, https://www.afd.fr/en/minka-peace-and-resilience-fund. [116]

Aguirre, A. (2016), "Fiscal policy and civil conflict in Africa", *Journal of African Economies*, Vol. 25/4, pp. 614-636, http://dx.doi.org/doi.org/10.1093/jae/ejw004. [10]

Ahmad, Y. et al. (2020), "Six decades of ODA: Insights and outlook in the COVID-19 crisis", in *Development Co-operation Profiles*, OECD Publishing, Paris, https://doi.org/10.1787/2dcf1367-en. [36]

Akitoby, B., J. Honda and K. Primus (2020), "Tax revenues in fragile and conflict-affected states – why are they low and how can we raise them?", *IMF Working Paper*, No. 20/143, International Monetary Fund, Washington, DC, https://www.imf.org/en/Publications/WP/Issues/2020/07/24/Tax-Revenues-in-Fragile-and-Conflict-Affected-States-Why-Are-They-Low-and-How-Can-We-Raise-49570. [6]

Alfaro, L., S. Kalemlio-Ozcan and V. Volosovych (2008), "Why doesn't capital flow from rich to poor countries? An empirical investigation", *The Review of Economics and Statistics*, Vol. 90/2, pp. 347-368, https://www.jstor.org/stable/40043150. [81]

Ali, M., O. Fjeldstad and I. Sjursen (2014), "To pay or not to pay? Citizens' attitudes toward taxation in Kenya, Tanzania, Uganda, and South Africa", *World Development*, Vol. 64, pp. 828-842, https://www.sciencedirect.com/science/article/pii/S0305750X14002083?via%3Dihub. [52]

Andersen, J. et al. (2017), "Petro rents, political institutions, and hidden wealth: evidence from offshore bank accounts", *Journal of the European Economic Association*, Vol. 15/4, pp. 818–860, https://doi.org/10.1093/jeea/jvw019. [44]

Anderson, T. and D. Johnson (2017), *Financing the Frontier: Inclusive Financial Sector Development in Fragility-Affected States in Africa*, Mercy Corps/FSD Africa, Portland, OR/Nairobi, https://www.findevgateway.org/paper/2017/02/financing-frontier-inclusive-financial-sector-development-fragility-affected-states. [86]

Baker McKenzie (2020), "Mining and metals trends: Global energy transition", https://www.bakermckenzie.com/en/insight/publications/2020/01/mining-and-metals-forecast-2020. [78]

Basile, I. and C. Neunuebel (2019), “Blended finance in fragile contexts: Opportunities and risks”, *OECD Development Co-operation Working Papers*, No. 62, https://doi.org/10.1787/f5e557b2-en. [7]

Bouët, A., L. Cosnard and D. Laborde (2017), “Measuring economic integration in Africa”, *Journal of Economic Integration*, Vol. 32/4, pp. 937-977, https://pdfs.semanticscholar.org/d0ea/2711786a50a62242890f77e9aa42085952b0.pdf. [12]

Brahmbhatt, M. and O. Canuto (2012), “Fiscal policy for growth and development”, *Economic premise*, No. 91, World Bank, Washington, DC, http://dx.doi.org/DOI: 10.1596/9780821396308_Overview. [64]

Bredtmann, J., F. Martínez Flores and S. Otten (2018), “Remittances and the brain drain: Evidence from microdata for sub-Saharan Africa”, *Journal of Development Studies*, Vol. 55/7, pp. 1455-1476, https://doi.org/10.1080/00220388.2018.1443208. [89]

Bulow, J. et al. (2020), “The debt pandemic”, *IMF Finance & Development*, https://www.imf.org/external/pubs/ft/fandd/2020/09/debt-pandemic-reinhart-rogoff-bulow-trebesch.htm. [113]

Calderon, C. and A. Zeufack (2020), “Borrow with sorrow: The changing risk profile of sub-Saharan Africa’s debt”, *Policy Research Working Paper*, No. 9137, World Bank, Washington, DC, https://openknowledge.worldbank.org/handle/10986/33293. [105]

Cordes, K., O. Östensson and P. Toledano (2016), “Employment from mining and agricultural investments: How much myth, how much reality?”, Columbia Center on Sustainable Investment, Columbia University, http://ccsi.columbia.edu/files/2014/11/Employment-impact-mining-and-ag-Executive-summary-CCSI-2016.pdf. [88]

DANIDA (2018), *Strategy for Denmark’s Engagement with The United Nations Development Programme 2018-2022*, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiQnemRkMfpAhUPnxQKHXuGBksQFjAAegQIAxAB&url=https%3A%2F%2Fum.dk%2Fen%2F~%2Fmedia%2FUM%2FEnglish-site%2FDocuments%2FDanida%2FAbout-Danida%2FDanida%2520transparency%2FConsultations%2F2. [124]

DANIDA (2018), *Strategy for Denmark’s Engagement with The United Nations Population Fund, 2018-2022*, https://www.ft.dk/samling/20181/almdel/URU/bilag/23/1959604.pdf. [125]

Deléchat, C. et al. (2018), “Exiting from fragility in sub-Saharan Africa: The role of fiscal policies and fiscal institutions”, *South African Journal of Economics*, Vol. 86/3, pp. 271-307, https://onlinelibrary.wiley.com/doi/full/10.1111/saje.12195. [11]

Desai, H. (2020), “States of fragility and official development assistance”, *OECD Development Co-operation Working Papers*, No. 76, OECD Publishing, Paris, https://doi.org/10.1787/44bbde61-en. [34]

Desai, H. and E. Forsberg (2020), “Multidimensional fragility in 2020”, *OECD Development Co-operation Working Papers*, No. 79, OECD Publishing, Paris, https://doi.org/10.1787/b4fbdd27-en. [1]

Dijkstra, G. (2018), *Budget Support, Poverty and Corruption: A Review of the Evidence*, Expert Group for Aid Studies, Stockholm, https://eba.se/wp-content/uploads/2018/11/2018-04-Dijkstra-Budget-Support-Web.pdf. [61]

DinarStandard (2019), *State of the Global Islamic Economy Report 2019/20: Driving the Islamic Economy Revolution 4.0*, DinarStandard, New York and Dubai, https://cdn.salaamgateway.com/special-coverage/sgie19-20/full-report.pdf. [98]

Donor Tracker (2020), *South Korea announces new initiative to support COVID-19 response in partner countries*, https://donortracker.org/policy-updates/south-korea-announces-new-initiative-support-covid-19-response-partner-countries. [128]

Elmaghrabi, M., M. Mohammed and A. Jan (2020), "Towards developing standards for the zakat administration in the Republic of Sudan", *International Journal of Management and Applied Research*, Vol. Vol. 7, No. 2, pp. 136-146, https://doi.org/10.18646/2056.72.20-010. [96]

European Commission (2016), "Collect more – Spend better: Achieving development in an inclusive and sustainable way", *Staff Working Document*, https://op.europa.eu/en/publication-detail/-/publication/7914c998-ecd6-11e5-8a81-01aa75ed71a1. [66]

Fofack, H. (2018), "A competitive Africa: Economic integration could make the continent a global player", *IMF Finance & Development*, Vol. 55/4, https://www.imf.org/external/pubs/ft/fandd/2018/12/afcfta-economic-integration-in-africa-fofack.htm. [24]

Forichon, K. (2020), "Considering human capital in a multidimensional analysis of fragility", *OECD Development Co-operation Working Papers*, No. 80, OECD Publishing, Paris, https://doi.org/10.1787/430770d4-en. [9]

G20/ Paris Club (2020), "Debt service suspension initiative for the poorest countries: term sheet", https://www.tresor.economie.gouv.fr/Articles/009a4adf-23c2-4283-b88f-83ce405e1272/files/ec1895a7-ac0d-4eaf-a300-e8d8a057a2fd. [111]

Gaspar, V. et al. (2019), "Fiscal policy and development: Human, social, and physical investments for the SDGs", *Staff Discussion Note*, No. 19/03, International Monetary Fund, Washington, DC, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444. [3]

Gaspar, V., L. Jaramillo and P. Wingender (2016), "Tax capacity and growth: Is there a tipping point?", *IMF Working Paper*, No. WP/16/234, International Monetary Fund, Washington, DC, https://www.imf.org/external/pubs/ft/wp/2016/wp16234.pdf. [40]

Government of Canada (2020), *Peace and Stabilization Operations Program*, https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/response_conflict-reponse_conflits/psop.aspx?lang=eng. [126]

Government Spending Watch (2020), *Spending Data (database)*, https://www.governmentspendingwatch.org/spending-data. [53]

Horrocks, P., F. Rühmann and S. Konda (2020), "Remittances during COVID-19: Reduce costs to save livelihoods", *OECD Development Matters blog*, https://oecd-development-matters.org/2020/05/27/remittances-during-covid-19-reduce-costs-to-save-livelihoods/. [91]

IFC (2019), *Generating Private Investment in Fragile and Conflict-Affected Areas*, International Finance Corporation, Washington, DC, https://www.ifc.org/wps/wcm/connect/07cb32dd-d775-4577-9d5f-d254cc52b61a/201902-IFC-FCS-Study.pdf?MOD=AJPERES&CVID=mzeJewf. [80]

ILO (2019), *Promoting transition to formality for peace and resilience*, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/instructionalmaterial/wcms_736145.pdf. [71]

International Energy Agency (2020), *The Oil and Gas Industry in Energy Transitions*, IEA, Paris, https://www.iea.org/reports/the-oil-and-gas-industry-in-energy-transitions. [79]

International Federation of Red Cross and Red Crescent (2018), "Beyond Charity - the transformative power of zakat in humanitarian crises", http://media.ifrc.org/innovation/wp-content/uploads/sites/9/2018/08/Kenya_case_study_2018_003.pdf. [102]

International Monetary Fund (2020), *Central Government Debt (database)*, https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/CHN/FRA/DEU/ITA/JPN/GBR/USA/IND. [106]

International Monetary Fund (2020), *Challenges in forecasting tax revenue*, Special Series on Fiscal Policies to Respond to COVID-19, No. April, 2020, https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes. [29]

International Monetary Fund (2020), *Factsheet: Catastrophe Containment and Relief Trust*, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/49/Catastrophe-Containment-and-Relief-Trust. [110]

International Monetary Fund (2020), "The evolution of public debt vulnerabilities in lower income economies", *Policy Paper*, No. 20/003, https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/02/05/The-Evolution-of-Public-Debt-Vulnerabilities-In-Lower-Income-Economies-49018. [60]

International Monetary Fund (2020), *World Economic Outlook April 2020: Central government net lending/borrowing, % of GDP*, https://www.imf.org/external/datamapper/GGXCNL_NGDP@WEO/OEMDC/ADVEC/WEOWORLD. [67]

International Monetary Fund (2015), *Staff Report: Making Public Investment More Efficient*, https://www.imf.org/external/np/pp/eng/2015/061115.pdf. [59]

International Monetary Fund (June 2020), *World Economic Outlook Update*, International Monetary Fund, Washington DC, https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020. [108]

International Organization for Migration (2020), "Expected 40 percent drop in remittances threatens Somalia's most vulnerable", *Medium*, https://medium.com/@UNmigration/covid-19-cuts-remittances-for-vulnerable-somalis-d3b6fdba04a3. [27]

Kher, P. and D. Chun (2020), *Policy Options to Mitigate Political Risk and Attract FDI*, World Bank, Washington, DC, https://openknowledge.worldbank.org/handle/10986/34380?locale-attribute=fr. [83]

Kim, J. (2018), "The IMF and fragile states: Capacity development issues", *Background Paper*, No. BP/18-01/05, Independent Evaluation Office of the International Monetary Fund, Washington, DC. [72]

Kim, Y. and J. Zhang (2019), *Debt and Growth*, International Monetary Fund, Washington, DC. [107]

Kose, M. et al. (2020), “Caught by a cresting debt wave”, *IMF Finance & Development*, Vol. 57/2, https://www.imf.org/external/pubs/ft/fandd/2020/06/COVID19-and-debt-in-developing-economies-kose.htm#:~:text=The%20COVID%2D19%20pandemic%20is,economies%20at%20a%20bad%20moment.&text=As%20these%20economies%20respond%20to,their%20debt%20will%20only%20increa. [54]

Lin, J. and C. Lanng (2020), “Here’s how global supply chains will change after COVID-19”, *World Economic Forum Agenda*, https://www.weforum.org/agenda/2020/05/this-is-what-global-supply-chains-will-look-like-after-covid-19/. [77]

Luiz, J., B. Ganson and A. Wennmann (2019), “Business environment reforms in fragile and conflict-affected states: From a transactions towards a systems approach”, *Journal of International Business Policy*, Vol. 2, pp. 217-236, https://link.springer.com/article/10.1057/s42214-019-00030-z. [85]

Mansour, M. and J. Schneider (2019), “How to design tax policy in fragile states”, *How-To Note*, No. 19/04, International Monetary Fund, Washington, DC, https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2019/09/20/How-to-Design-Tax-Policy-in-Fragile-States-48512. [119]

Manuel, M. et al. (2018), “Financing the end of extreme poverty”, https://www.odi.org/sites/odi.org.uk/files/resource-documents/12411.pdf. [4]

Marley, J. and H. Desai (2020), “Fragility and Agenda 2030: Navigating shocks and pressures in fragile contexts”, *OECD Development Co-operation Working Papers*, No. 82, OECD Publishing, Paris, https://doi.org/10.1787/65d5cb9c-en. [5]

Marley, J. and E. Forsberg (2020), “Diplomacy and peace in fragile contexts”, *OECD Development Co-operation Working Papers*, No. 77, OECD Publishing, Paris, https://doi.org/10.1787/6a684a4b-en. [120]

Merler, S. (2018), “The cost of remittances”, *Breugel blog*, https://www.bruegel.org/2018/04/the-cost-of-remittances/. [92]

MIGA (2018), *MIGA At-a-Glance*, Multilateral Investment Guarantee Agency, World Bank Group, Washington, DC, https://www.miga.org/sites/default/files/2019-05/miga_at_a_glance_v1_0.pdf. [84]

Mold, A. and A. Mveyange (2020), “Trade in uncertain times: Prioritizing regional over global value chains to accelerate economic development in East Africa”, *Brookings Africa in Focus blog*, https://www.brookings.edu/blog/africa-in-focus/2020/04/15/trade-in-uncertain-times-prioritizing-regional-over-global-value-chains-to-accelerate-economic-development-in-east-africa/. [23]

OECD (2020), “A “debt standstill” for the poorest countries: How much is at stake?”, *OECD Policy Responses to Coronavirus (COVID-19)*, https://www.oecd.org/coronavirus/policy-responses/a-debt-standstill-for-the-poorest-countries-how-much-is-at-stake-462eabd8/. [104]

OECD (2020), “COVID-19 and Africa: Socio-economic implications and policy responses”, *OECD Policy Responses to Coronavirus (COVID-19)*, http://www.oecd.org/coronavirus/policy-responses/covid-19-and-africa-socio-economic-implications-and-policy-responses-96e1b282/. [28]

OECD (2020), “COVID-19, crises and fragility”, *OECD Policy Responses to Coronavirus (COVID-19)*, http://www.oecd.org/coronavirus/policy-responses/covid-19-crises-and-fragility-2f17a262/. [19]

OECD (2020), *Creditor Reporting System (database)*, https://stats.oecd.org/Index.aspx?datasetcode=CRS1. [15]

OECD (2020), *Deflators for Resource Flows from DAC Countries (2018=100)*, OECD Publishing, Paris, https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/. [131]

OECD (2020), “Detailed aid statistics: ODA Official development assistance: disbursements”, in *OECD International Development Statistics (database)*, https://doi.org/10.1787/data-00069-en. [132]

OECD (2020), *FDI in Figures*, OECD Publishing, Paris, http://www.oecd.org/investment/FDI-in-Figures-April-2020.pdf. [14]

OECD (2020), “Foreign direct investment flows in the time of COVID-19”, *OECD Policy Responses to Coronavirus (COVID-19)*, https://www.oecd.org/coronavirus/policy-responses/foreign-direct-investment-flows-in-the-time-of-covid-19-a2fa20c4/. [22]

OECD (2020), *Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and the Planet*, OECD Publishing, Paris, https://doi.org/10.1787/e3c30a9a-en. [65]

OECD (2020), “How Islamic finance contributes to achieving the Sustainable Development Goals”*, OECD Development Policy Papers*, No. 30, OECD Publishing, Paris, https://doi.org/10.1787/ac1480ca-en. [97]

OECD (2020), “Impact of the COVID-19 and the global oil price shock on oil-exporting developing countries”, *OECD Policy Responses to Coronavirus (COVID-19)*, https://www.oecd.org/coronavirus/policy-responses/the-impact-of-coronavirus-covid-19-and-the-global-oil-price-shock-on-the-fiscal-position-of-oil-exporting-developing-countries-8bafbd95/. [49]

OECD (2020), *Joint Statement by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD)*, OECD Publishing, Paris, http://www.oecd.org/dac/development-assistance-committee/DAC-Joint-Statement-COVID-19.pdf. [37]

OECD (2020), “Mission drawdowns: Financing a sustainable peace - Sustaining gains and supporting economic stability post UN mission withdrawal”*, OECD Development Policy Papers*, No. 28, OECD Publishing, Paris, https://doi.org/10.1787/a0b4c681-en. [118]

OECD (2020), *States of Fragility 2020*, OECD Publishing, Paris, https://doi.org/10.1787/ba7c22e7-en. [20]

OECD (2019), *FDI Qualities Indicators: Measuring the Sustainable Development Impacts of Investment*, OECD Publishing, Paris, http://www.oecd.org/investment/FDI-Qualities-Indicators-Measuring-Sustainable-Development-Impacts.pdf. [74]

OECD (2019), “Financing for refugee situations”*, OECD Development Policy Papers*, No. 24, OECD Publishing, Paris, https://doi.org/10.1787/02d6b022-en. [63]

OECD (2019), *OECD Development Co-operation Peer Reviews: Sweden 2019*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9f83244b-en. [121]

OECD (2019), *Tax Morale: What Drives People and Businesses to Pay Tax?*, OECD Publishing, Paris, https://doi.org/10.1787/f3d8ea10-en. [51]

OECD (2018), *Global Outlook on Financing for Sustainable Development 2019: Time to Face the Challenge*, OECD Publishing, Paris, https://doi.org/10.1787/9789264307995-en. [39]

OECD (2018), *Private Philanthropy for Development*, The Development Dimension, OECD Publishing, Paris, https://doi.org/10.1787/9789264085190-en. [95]

OECD (2018), *States of Fragility 2018*, OECD Publishing, Paris, https://doi.org/10.1787/9789264302075-en. [70]

OECD (2016), *OECD Development Co-operation Peer Reviews: Denmark 2016*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264259362-en. [122]

OECD (2016), *Sector Financing in the SDG Era*, The Development Dimension, OECD Publishing, Paris, https://doi.org/10.1787/9789264307711-en. [62]

OECD (2014), *OECD Development Co-operation Peer Reviews: United Kingdom 2014*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264226579-en. [123]

OECD DAC (2019), *DAC Recommendation on the Humanitarian-Development-Peace Nexus*, OECD Publishing, Paris, https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-5019. [117]

OECD/ATAF/AUC (2019), *Revenue Statistics in Africa 2019: 1990-2017*, OECD Publishing, Paris, https://doi.org/10.1787/5daa24c1-en-fr. [47]

Ongley, K. and A. Selassie (2020), “In it together: Protecting the health of Africa’s people and their economies”, *IMF Blog*, https://blogs.imf.org/2020/03/25/in-it-together-protecting-the-health-of-africas-people-and-their-economies/?utm_medium=email&utm_source=govdelivery. [18]

Orth, M., M. Birsan and G. Gotz (2018), *The future of integrated, policy-based development co-operation: Lessons from the exit from general budget support in Malawi, Rwanda, Uganda and Zambia*, German Institute for Development Evaluation, Bonn, http://www.oecd.org/derec/germany/Future-Integrated-Policy-Based-Development-Cooperation.pdf. [68]

Pickup, F., I. Beik and G. Buana (2018), “Unlocking the potential of zakat and other forms of Islamic finance to achieve the SDGs in Indonesia”, UNDP and BAZNAS, Jakarta, https://www.researchgate.net/publication/328723404_Unlocking_the_Potential_of_Zakat_and_Other_Forms_of_Islamic_Finance_to_Achieve_the_SDGs_in_Indonesia. [101]

Poole, L. (2018), “Financing for Stability in the post-2015 era”, *OECD Development Co-operation Policy Papers*, No. 10, OECD Publishing, Paris, https://dx.doi.org/10.1787/c4193fef-en. [50]

Quayyum, S. and R. Kpodar (2020), *Supporting migrants and remittances as COVID-19 rages on*, https://blogs.imf.org/2020/09/11/supporting-migrants-and-remittances-as-covid-19-rages-on/. [26]

Ratha, D. et al. (2020), “COVID-19 crisis through a migration lens”*, Migration and Development Brief*, No. 32, World Bank Group, Washington, DC, http://documents.worldbank.org/curated/en/989721587512418006/pdf/COVID-19-Crisis-Through-a-Migration-Lens.pdf. [32]

Rehman, A. (2019), “Islamic finance for social good”, https://www.undp.org/content/undp/en/home/blog/2019/IFN_ANNUAL_GUIDE_2019_Islamic_Social_Finance.html. [100]

Ross, M. (2012), *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*, Princeton University Press, https://www.jstor.org/stable/j.ctt7s3wz. [45]

Schatteman, O., D. Woodhouse and J. Terino (2020), “Supply chain lessons from Covid-19: Time to refocus on resilience”, *Bain & Co. Insights Brief*, https://www.bain.com/insights/supply-chain-lessons-from-covid-19/. [76]

Simon, H. and M. Harding (2020), “What drives consumption tax revenues? Disentangling policy and macroeconomic drivers”*, OECD Taxation Working Papers*, No. 47, OECD Publishing, Paris, https://doi.org/10.1787/22235558. [31]

Spanish Ministry of Foreign Affairs, European Union and Cooperation (2020), *Minister González Laya presents Joint Response Strategy from Spanish Cooperation to COVID-19 Crisis at Council of Ministers*, http://www.exteriores.gob.es/Portal/en/SalaDePrensa/NotasdePrensa/Paginas/2020_NOTAS_P/20200721_NOTA117.aspx. [127]

Thompson, C. (forthcoming), “Achieving sustainable debt in fragile contexts”, OECD Publishing, Paris. [103]

UN (2020), *Debt and COVID-19: A Global Response in Solidarity*, https://reliefweb.int/report/world/debt-and-covid-19-global-response-solidarity. [55]

UN (2020), *Financing for Sustainable Development Report 2020*, Inter-agency Task Force on Financing for Development, United Nations, New York, https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR_2020.pdf. [73]

UN (2019), *2020 Review of the UN Peacebuilding Architecture (webpage)*, https://www.un.org/peacebuilding/content/2020-review-un-peacebuilding-architecture. [115]

UN (2019), *Financing for Sustainable Development Report 2019*, Inter-agency Task Force on Financing for Development, United Nations, New York, https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2019.pdf. [129]

UN (2015), *Addis Ababa Action Agenda of the Third International Conference on Financing for Development*, United Nations (UN), New York, https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf. [38]

UN DESA (2020), *World Population Prospects 2019 (database)*, United Nations Department of Economic and Social Affairs (UN DESA), New York, https://population.un.org/wpp/. [43]

UN DESA (2018), *LDC Data (database)*, United Nations Department of Economic and Social Affairs (UN DESA), New York, https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-data-retrieval.html. [13]

UN/World Bank (2018), *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict*, World Bank, Washington, DC, https://openknowledge.worldbank.org/handle/10986/28337. [8]

UNCTAD (2020), *Impact of the COVID-19 Pandemic on Global FDI and GVCs: Updated Analysis*, United Nations Conference on Trade and Development (UNCTAD), Geneva, https://unctad.org/en/PublicationsLibrary/diaeiainf2020d3_en.pdf. [33]

UNCTAD (2020), *The Covid-19 Shock to Developing Countries: Towards a "Whatever It Takes" Programme for the Two-thirds of the World's Population Being Left Behind*, United Nations Conference on Trade and Development (UNCTAD), Geneva, https://unctad.org/en/PublicationsLibrary/gds_tdr2019_covid2_en.pdf. [48]

UNCTAD (2020), *World Investment Report 2020: International Production Beyond the Pandemic*, United Nations Conference on Trade and Development (UNCTAD), Geneva, https://unctad.org/system/files/official-document/wir2020_en.pdf. [75]

UNCTAD (2019), *Commodities & Development Report 2019: Commodity Dependence, Climate Change and the Paris Agreement*, United Nations Conference on Trade and Development (UNCTAD), Geneva, https://unctad.org/en/PublicationsLibrary/ditccom2019d3_en.pdf. [42]

UNCTAD (2012), *Extractive industries: Optimizing Value Retention in Host Countries*, United Nations Conference on Trade and Development (UNCTAD), Geneva, https://unctad.org/en/PublicationsLibrary/suc2012d1_en.pdf. [87]

UNHCR (2020), *Global Trends: Forced Displacement in 2019*, UN Refugee Agency (UNHCR), Geneva, https://www.unhcr.org/globaltrends2019/. [130]

UNHCR (2019), "UNHCR unveils the Refugee Zakat Fund, a global Islamic finance structure to help displaced populations worldwide", https://www.unhcr.org/hk/21715-unhcr-unveils-the-refugee-zakat-fund-a-global-islamic-finance-structure-to-help-displaced-populations-worldwide.html. [99]

UNHCR (2018), *Global Compact on Refugees (webpage)*, UN Refugee Agency, Geneva, https://www.unhcr.org/the-global-compact-on-refugees.html. [114]

UNU-WIDER (2020), *GRD - Government Revenue Dataset (database)*, United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki, https://www.wider.unu.edu/project/government-revenue-dataset. [41]

van de Poel, J. (2020), "Covid-19 and Official Development Assistance: Current Issues and Challenges", *Briefing Paper*, Eurodad, Brussels, https://eurodad.org/files/pdf/1547400-covid-19-and-official-development-assistance-current-issues-and-challenges.pdf. [35]

von Haldenwang, C. and M. Ivanyna (2018), "Does the political resource curse affect public finance? The vulnerability of tax revenue in resource-dependent countries", *Journal of International Development*, Vol. 30/2, pp. 323-344, http://dx.doi.org/doi: 10.1002/jid.3346. [46]

Weigel, J. (2020), "The participation dividend of taxation: How citizens in Congo engage more with the state when it tries to tax them", *The Quarterly Journal of Economics*, Vol. 135/4, pp. 1849–1903, https://doi.org/10.1093/qje/qjaa019. [69]

Wei, S. (2000), "How taxing is corruption on international investors?", *The Review of Economics and Statistics*, Vol. 82/1, pp. 1-11, http://dx.doi.org/DOI: 10.2307/2646667. [82]

World Bank (2020), *ASPIRE: The Atlas of Social Protection Indicators of Resilience and Equity (database)*, https://www.worldbank.org/en/data/datatopics/aspire. [56]

World Bank (2020), *Foreign direct investment net inflows (database)*, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD. [17]

World Bank (2020), *GDP (current US$) (database)*, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD. [2]

World Bank (2020), *International Debt Statistics - DSSI (database)*, http://datatopics.worldbank.org/debt/ids/. [112]

World Bank (2020), *International Debt Statistics (database)*, https://data.worldbank.org/products/ids. [109]

World Bank (2020), *List of Fragile and Conflict-affected Situations*, http://pubdocs.worldbank.org/en/176001594407411053/FCSList-FY06toFY20.pdf. [134]

World Bank (2020), *Migration and Remittances Data - Remittance Inflows*, https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data. [94]

World Bank (2020), *Personal remittances, received (current US$) (database)*, https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT. [16]

World Bank (2020), *Remittance Prices Worldwide (database)*, http://remittanceprices.worldbank.org. [93]

World Bank (2020), *The African Continental Free Trade Area: Economic and Distributional Effects*, http://dx.doi.org/doi:10.1596/978-1-4648-1559-1. [133]

World Bank (2020), "World Bank predicts sharpest decline of remittances in recent history", https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history (accessed on 9 May 2020). [25]

World Bank (2018), *World Governance Indicators (database)*, https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators. [57]

World Bank Group (2015), "Can remittances help promote consumption stability?", in *Global Economic Prospects, January 2015: Having Fiscal Space and Using It*, https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter4_report_remittances.pdf. [90]

World Vision (n.d.), *World Food Programme Partnership*, https://www.wvi.org/our-partners/world-food-programme-partnership. [135]

WTO (2020), *Trade shows signs of rebound from COVID-19, recovery still uncertain*, https://www.wto.org/english/news_e/pres20_e/pr862_e.htm. [21]

WWAP, U. (2019), *The United Nations World Water Development Report 2019: Leaving No One Behind*, UNESCO, Paris, https://www.unwater.org/publications/world-water-development-report-2019/. [58]

Zeufack, A. et al. (2020), *Africa's Pulse, No. 21*, World Bank, Washington, DC, http://dx.doi.org/Doi: 10.1596/978-1-4648-1568-3. [30]

BETTER POLICIES FOR BETTER LIVES