



FIXING FRAGILITY:

The role of the private sector
and local institutions

A new approach to state fragility

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The future of development aid is in helping the least successful countries to catch up with the rest of mankind. India, Indonesia, Brazil, and most other developing countries are broadly on track to catch up, but a minority of countries are not. The Report of the Commission on State Fragility, Growth and Development, co-directed by Tim Besley and myself, issued in April 2018 as *Escaping the Fragility Trap*, was highly critical of international policies. That Somaliland, debarred from all assistance by the anomaly of non-recognition, has outperformed Somalia should concentrate minds: A reset of policies is long overdue.

The report argues that fragility is a syndrome of characteristics: fractured identities, a lack of state legitimacy and capacity, insecurity, a dearth of formal enterprises, and proneness to shocks. These reinforce each other, creating a trap. That fragility is a syndrome challenges both the conventional diagnosis of a “root cause” (typically some presumed past injustice) and the conventional “solution,” which starts from some future vision of an OECD-style society and deduces an agenda from the differences between that vision and current reality. Foreign troops keep the peace; an election “solves” the legitimacy problem; and in return for aid,

the new government “agrees” to a donor wish list of reforms. This approach denies the condition from which the society starts. Foreign troops rapidly become intrusive; an election further divides the society rather than solving the lack of legitimacy; an ambitious reform package cannot be implemented by a state with little capacity. The society is hit by adverse shocks before anything has time to work.

Our alternative approach emphasizes the importance of national sovereignty, and pivotal moments of opportunities. As to sovereignty, states, not foreign entities, must manifestly be in charge of public policy: They must not be bullied or bribed into a policy agenda in which they do not believe. Such attempts turn governance into theater, in which governments sign up for undertakings that they have neither the capacity nor the intention to deliver. Cumulatively, the resulting failures have deepened the problem. If states and their intentions are fundamental to successful change, in many fragile situations for long periods there will be little that the international community can realistically do. This must be recognized: The alternative is repeated failures deepening despair. But precisely because such states are fragile, crises and changes of leadership periodically create pivotal moments when change is

possible. International support needs to be sufficiently quick that it can seize on such moments. Not all can be well identified, but the cost of missing an infrequent opportunity is likely to be far higher than intervening in situations that turn out to be unpromising.

During a pivotal moment, the international community should support, but not set, policies. Citizens must recognize without ambiguity that the government is choosing its course of action without undue external influence. Our suggestion to such governments is to adopt a two-pronged approach. The first prong is a series of step-by-step changes that are simple to do and result in quick, visible improvements: This gradually builds confidence and practical legitimacy. The second prong is a medium-term agenda that is highly focused on strengthening the process by which jobs are generated: Productive jobs will gradually stabilize the society and enable living standards to catch up. This process of job generation depends on the private sector of the economy, as fragile states need many more formal firms. But firms need the services provided by the key sinews of the state: security, infrastructure, the rule of law, and effective checks and balances on abuse of power. Since they each cost money, they all rest on the state's capacity to tax. Hence, strengthening these five sinews of the state constitutes the priority both for government and for donor support.

Catalyzing firms in conditions of fragility is intrinsically difficult because domestic firms typically remain informal to hide from government and consequently cannot reap economies of scale and specialization. Foreign firms see few opportunities and are fearful of their reputation, especially as business-hostile nongovernmental organizations patrol like sharks. The public institutions that can be most helpful in

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attracting proper firms to places where they are sorely needed are the development finance institutions since, by design, they are the interface between development assistance and business. The future of development assistance is to use public money to offset the costs and risks of firms that pioneer new activities in poor and fragile societies. The \$30 billion Bangladeshi garment industry, which has transformed the lives and status of young women, was ignited by a pioneer foreign firm that was imitated by local entrepreneurs. The benefits of pioneer firms can be huge, but they themselves do not capture the gains and so there are far too few of them. The use of aid to bring firms to where they are most needed is starting to happen. For example, the World Bank Group, the United States, and the United Kingdom are all scaling up, reforming, or putting into action their respective development finance organizations. (See Jim Yong Kim's Viewpoint on Page 70)

International discourse on state fragility is steeped in high-sounding pious moralization. In the language of my 2007 book *The Bottom Billion*, the conversation has been dominated by the headless heart. Yet the problem of the continued fragility of many of the poorest countries, and their resulting divergence from the rest of mankind, is too serious for such responses. Alongside warm hearts, we need cool heads.

Local institutions can mitigate climate related conflict in the Sahel

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01.

Climate change acts as a conflict multiplier by amplifying existing environmental stresses, creating new ones, and thus exacerbating resource scarcities and water and food insecurity. Governance and institution weaknesses amplify the effect of climate change on conflict.^{1,2} Based on recent research on farmer-herder conflicts in Niger, my team and I argue that increased reliance on local institutions through deeper decentralization of governance could mitigate conflicts.

Niger is a landlocked country in the Sahel region of West Africa, with a semi-desertic environment and low and variable rainfall. Niger's economy is heavily dependent on farming and herding. Population growth, which is among the fastest in Africa, and climate change are squeezing access to freshwater, leading to conflicts over control of scarce resources. In the latest outbreak of violence in November 2016 in the Tahoua region, 20 people were killed and 43 injured in a battle between farmers and herders. Likewise, 10 people were killed and 13 injured in November 2014 in the town of Birni-N'Konni in the Tahoua region. In the Tillabery region during 2010, more than 50 herders were killed when conflict broke out between herders from Mali and Niger.

While population growth and climate change are major contributors to rising tensions, institutional failures are also a factor, such as government failure in defining and

1 Kevane, M., & Gray, L. 2008. Darfur: rainfall and conflict. *Environmental Research Letters*, 3(3), 034006. <https://doi.org/10.1088/1748-9326/3/3/034006>.

2 Barnett, J., & Adger, W. N. 2007. Climate change, human security and violent conflict. *Political Geography*, 26(6), 639-655. <https://doi.org/10.1016/j.polgeo.2007.03.003>.

protecting property rights and providing justice and security. Institutions are known as the formal and informal rules and norms that organize social, political, and economic relations.³ Informal institutions, which consist of unwritten norms, customs, and traditions, such as the ones governing kinship and religious networks in West Africa,⁴ overlap with and usually overwhelm formal institutions in some areas like land rights. In many instances, they undermine formal ones; in others, they substitute for them.^{5, 6}

In Africa, formal institutions, such as the central government and related bodies, are characterized by an over-centralization of governance, leading to burdensome rules and regulations and corruption, and, more importantly, weak decentralization schemes. Management of such local issues as education, health, reliable policing, and land rights is dealt with by the formal institutions at central government. Farmer-herder conflicts usually arise out of the inability of this system of governance to resolve disputes.

Empowering local informal institutions, which are more trusted and respected, could bring greater effectiveness in conflict prevention and resolution. Moreover, informal institutions often seek civil solutions in addressing conflicts, such as mediation, adjudication, reconciliation, and negotiation, which are found to yield superior outcomes compared to dysfunctional formal institutions such as courts and police that often cultivate further resentment.

As climate change puts more pressure on already fragile areas in the Sahel, it will become ever more important to find ways to nurture cooperation and peaceful resolutions to disputes over resources. From our research, stronger local governance through the power of informal institutions proves promising as a path forward.

3 North, D. C. 1990. Institutions and Economic Growth: An Historical Introduction. *World Development*, 17(9), 131–1332.

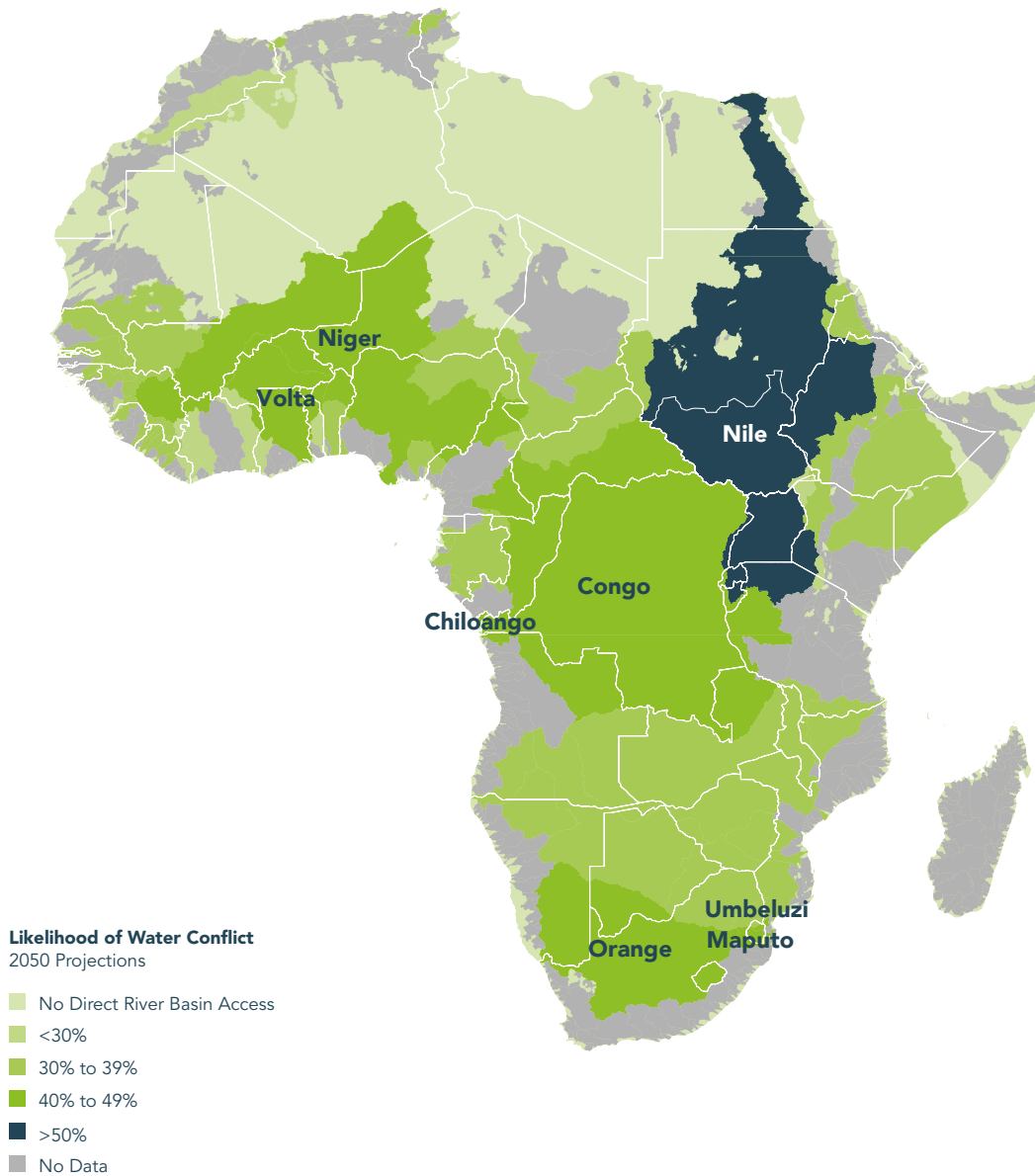
4 Golub, S.S. and A.A. Mbaye. 2009. National Trade Policies and Smuggling in Africa: The Case of The Gambia and Senegal. *World Development* Vol. 37, No. 3, pp. 595–606, 2009.

5 Leftwich A. and Sen K. 2010. *Beyond institutions: Institutions and organizations in the politics and economics of poverty reduction – Thematic synthesis of research evidence*.

6 Jütting, J., D. Drechsler, S. B. and I. D. S. 2007. *Informal Institutions and Development : How they matter and what makes them change*. OECD, Development Centre studies.

Figure 4.1 Hydro-political conflict in Africa

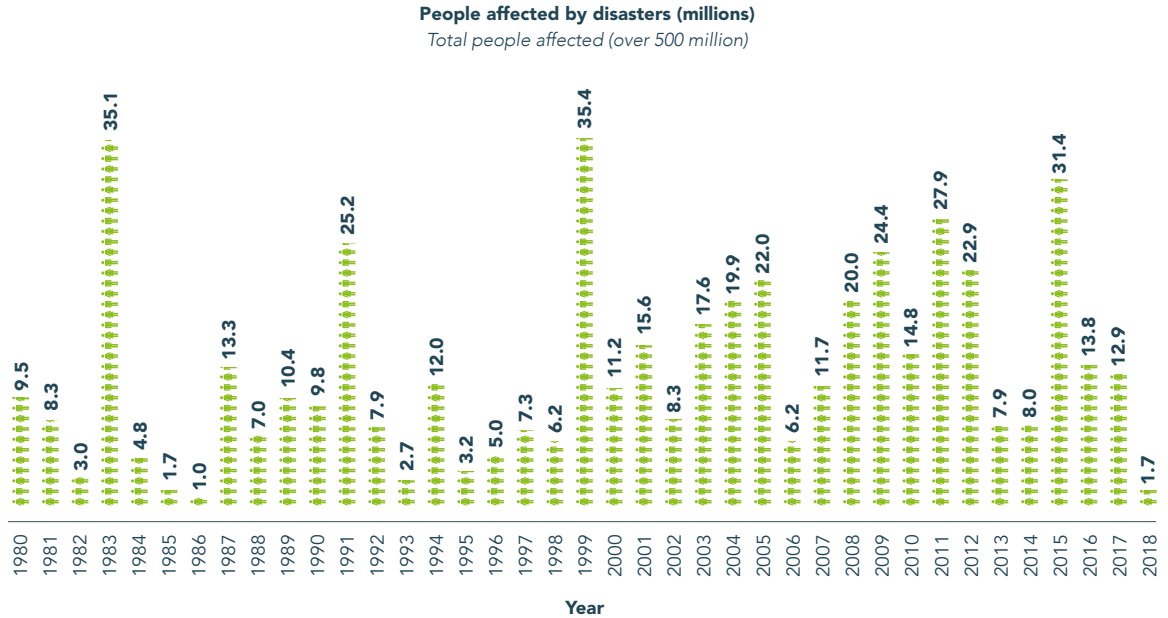
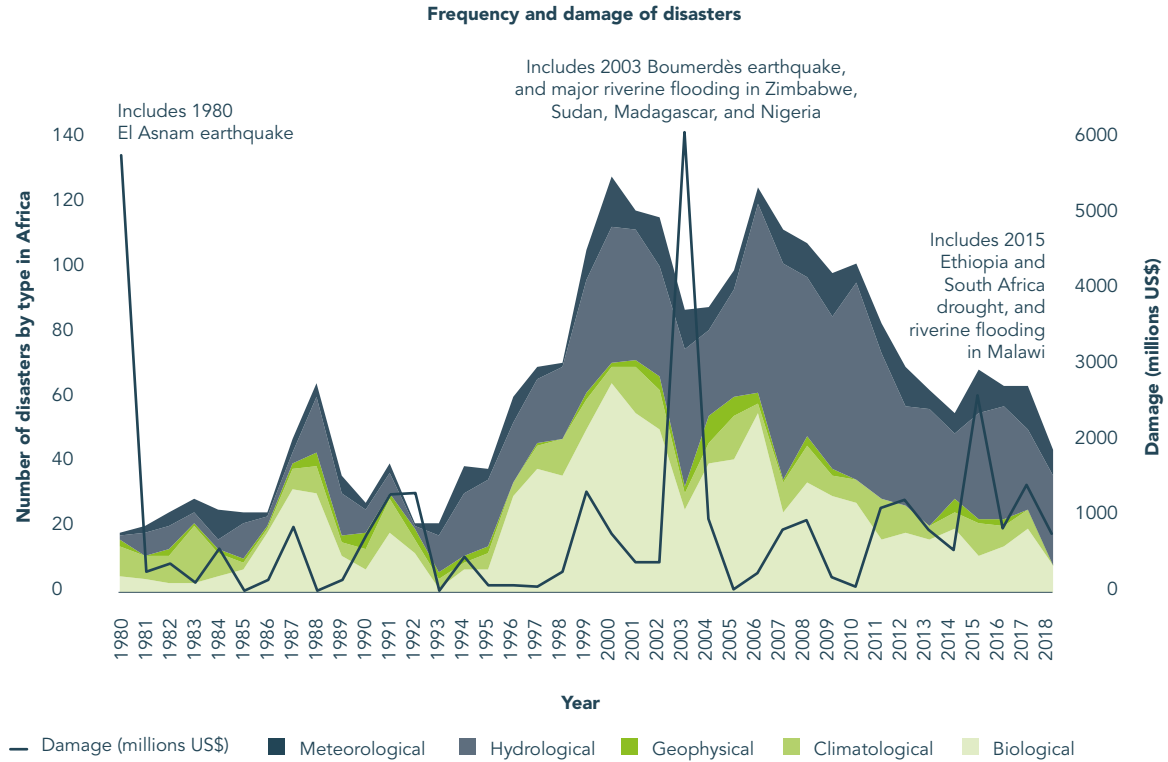
By 2050, under moderate climate change projections, Africa will have some of the world's most contested conflicts over water. In places like the Nile river basin, there is more than a 50 percent chance that the various countries that rely on that basin will engage in some sort of conflict or political interaction over fresh water.



Source: F. Farinosa, C. Giupponic, A. Reynaud, G. Ceccherini, C. Carmona-Moreno, A. De Roo, D. Gonzalez-Sanchez, & G. Bidoglio. "An innovative approach to the assessment of hydro-political risk: A spatially explicit, data driven indicator of hydro-political issues" (2018). Volume 52. Global Environmental Change.

Figure 4.2 Natural disasters in Africa: Cost, impact, and frequency

A crucial element of resilience is a region's ability to deal with natural disasters. In the last three decades, Africa has faced some of the world's most detrimental disasters, resulting in billions of dollars of damage, and millions of people affected.



Note: People affected is defined as people requiring immediate assistance during a period of emergency, i.e. requiring basic survival needs such as food, water, shelter, sanitation and immediate medical assistance. People affected also includes people killed. Estimated damage is the amount of damage to property, crops, and livestock. For each disaster, the value of estimated damage corresponds to the damage value at the moment of the event, i.e., the figures are shown true to the year of the event.

Source: Emergency Events Database (EM-DAT).

An African-owned initiative to manage natural disaster and climate risks

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02.

Africa is one of the most vulnerable regions to natural disasters and the impact of climate change despite contributing the least to global warming. Africa faces major hurdles, including fiscal constraints and lack of appropriate policy and institutional framework, to prepare for, manage, and respond to disaster risks that are increasing because of climate change. For example, the agriculture system on the continent, mostly rain-fed, is likely to suffer from a reduction in crop yields, which will increase rural-to-urban migration. As a result, more than 85 million people (4 percent of the overall population) are estimated to have to relocate within their own countries by 2050.¹ This internal movement could exacerbate the impact of events like disease outbreak, flooding, and food price hikes.²

In response, the African Union established the African Risk Capacity (ARC) in 2012 to provide African sovereigns with capacity building, technical, and institutional support for early warning, contingency planning and management, and risk finance. The agency enables governments to build resilience and better plan, prepare for, and respond to extreme weather events such as drought. ARC Insurance Company Limited (ARC Ltd)—a specialist hybrid mutual insurance company established as an affiliate to the agency in late 2014—transfers weather risk away from governments, and the vulnerable households they protect, to ARC Ltd.

¹ World Bank, 2018, Groundswell: Preparing for Internal Climate Migration.

² Serdeczny et al. 2016. "Climate change impacts in Sub-Saharan Africa: from physical changes to their social repercussions." *Regional Environmental Change* 15, no. 8, pp 1585-1601.

The early response interventions in the critical three months after harvest, one of the key value propositions of ARC, could result in economic gains of over \$1,200 per household assisted.³

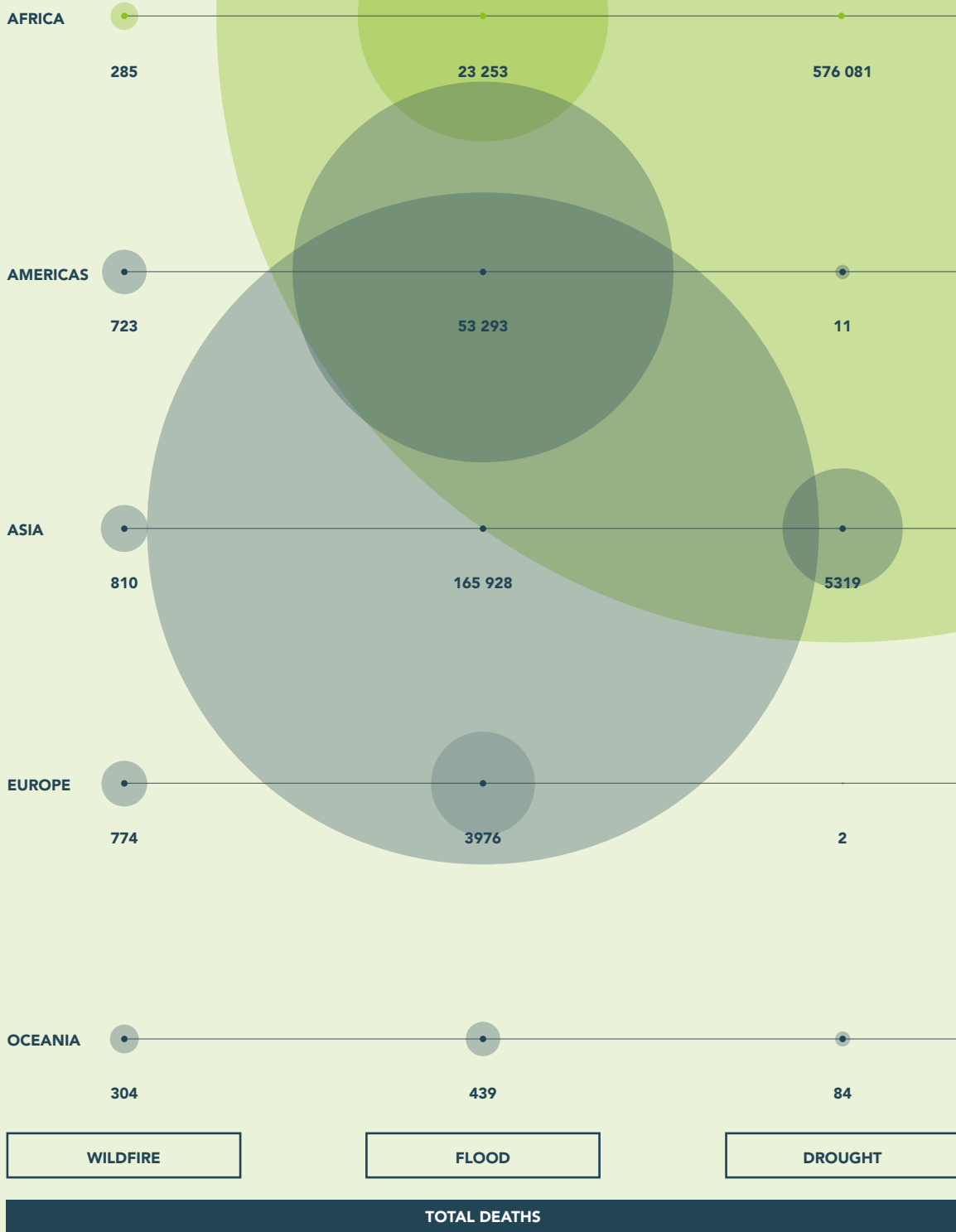
From 2014 to date, ARC has provided support to more than 16 out the 34 African countries that have signed the ARC treaty. ARC and its insurance affiliate have underwritten over \$400 million of drought insurance policies and provided indirect insurance coverage to more than 9.7 million Africans. So far, the sovereign pool insurance has disbursed cumulatively \$36.8 million in payout to drought-affected countries in Africa, used for rapid response and assistance to over 2.1 million vulnerable people and over 1 million livestock. Governments of ARC Member States have used ARC funding to scale up cash transfers, subsidize livestock feed, replenish depleted food reserves, and distribute emergency food supplies.

While risk transfer mechanisms such as ARC insurance are appropriate for low frequency and high impact disasters, they are less effective as instruments to respond to frequent disasters. Thus, it is paramount for African governments, policymakers, and partners to develop various but complementary instruments to protect from disaster events of various frequency and severity. Layering these risks and identifying the appropriate mechanisms (risk retention versus risk transfer) along with an adequate investment in disaster risk reduction measures and preparedness will provide more comprehensive protection to the African countries. This is the aim of ARC.

³ Cost-Benefit Analysis of ARC, 2012.

Figure 4.3 Aggregate impact of climatological disasters between 1980 and 2018

Over the past three decades, drought in Africa was the most deadly climatological disaster in the world. More people died from droughts in Africa than all the climatological disaster related deaths combined from the rest of the world. If the past is a lesson for the future, Africa will be disproportionately affected by climate change, especially as its severity increases.





29

916

243

148

998

137

65

1819

131

111

581

43

33

129

25

WILDFIRE

FLOOD

DROUGHT

NUMBER OF OCCURENCES

Source: Emergency Events Database (EM-DAT).

The World Bank's strategy for addressing fragility in sub-Saharan Africa

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03.

Of the many challenges facing sub-Saharan Africa, one of the most critical is the number of areas suffering from fragility, conflict, and violence (FCV). These conditions are not new; they have posed a formidable challenge to efforts to end poverty for several decades.

Today, however, we need a new approach—and a fierce sense of urgency—to tackle FCV. The share of global poor living in fragile and conflict-affected countries has risen from 14 percent in 2008 to 23 percent in 2015. As violent conflicts continue to surge, that number will likely increase. We need a stronger focus on the underlying drivers of fragility to have any hope of achieving our goals: to end extreme poverty by 2030, and to boost shared prosperity around the world.

That is why we are changing the way we do business in African countries affected by fragility, conflict, and violence. We are scaling up our support. Over the past two years, we have invested \$4 billion to support private sector solutions, and we are developing a tailored approach to maximize our impact and build hope and opportunity for those living in some of Africa's most fragile areas.

A four-pronged approach

Pivoting to prevention

The key to addressing fragility, conflict, and violence in Africa is prevention: addressing risks and grievances before they turn into full-blown crises. Through the International Development Association's 18 Risk Mitigation Regime, we are providing more resources for countries such as Niger and Guinea to mitigate the drivers of FCV.

The World Bank Group is also working with the United Nations, the International Committee of the Red Cross, and global technology firms to develop the Famine Action Mechanism,¹ a new initiative that harnesses state-of-the-art technologies such as artificial intelligence and machine learning to strengthen our ability to forecast famine risks and ensure that financial resources are released before famines begin.

Remaining engaged

When conflicts do occur, however, the support that countries receive can make the difference between lives lost and lives saved. That requires close cooperation between humanitarian, development, and security institutions.

One example of that cooperation is the Sahel Alliance.² Members of the alliance, including the European Union and several European countries, the U.N., and the World Bank Group are supporting Mauritania, Mali, Niger, Burkina Faso, and Chad with a package of over 500 projects totaling more than \$8 billion through 2022. Twelve flagship programs adopt a spatial, multi-sectoral approach, which is targeted to help vulnerable populations in fragile regions.

Escaping fragility

Several countries in sub-Saharan Africa suffer from protracted conflicts that have resulted in a fragility trap. Helping them escape will require a new approach.

For example, in countries such as the Central African Republic and Somalia, we are focusing our efforts on building the capacity and legitimacy of the governments, strengthening accountability and inclusive institutions, and ultimately building the necessary trust between citizens and the state for long-term peace and stability to take hold.

Mitigating the impact of FCV

Finally, in countries impacted by forced displacement crises, we are supporting both refugees and communities that provide a global public good by hosting migrants. We are providing \$2 billion³ to help low-income countries that are hosting large numbers of refugees—such as Cameroon, Chad, Ethiopia, Niger, Republic of Congo, and Uganda—through programs that create jobs and opportunities, build the resilience of local institutions, promote pro-refugee policies, and foster social cohesion.

1 The World Bank, United Nations, ICRC and other global partners are developing the Famine Action Mechanism (FAM)—the first global mechanism dedicated to supporting upstream interventions in famine prevention, preparedness and early action. The FAM seeks to formalize links between early warnings, financing and implementation arrangements. For more information visit: <http://www.worldbank.org/en/programs/famine-early-action-mechanism>.

2 The Sahel Alliance is bringing together development partners and large international organizations to respond to the double-edged challenge of security and development in the Sahel. Learn more about the partnership: <https://www.alliance-sahel.org/en/sahel-alliance/>

3 This funding is being provided through the International Development Association's (IDA18) regional sub-window for refugees and host communities. Learn more about the regional sub-window: <http://ida.worldbank.org/financing/replenishments/ida-18replenishments/ida18-regional-sub-window-for-refugees-host-communities>.

We are also exploring ways to leverage the private sector to provide solutions to the forced displacement crisis. One example is the “Kakuma as a Marketplace” report that the International Finance Corporation conducted in Kenya along with the U.N.’s High Commissioner for Refugees to assess the economic potential of the camp. This study provides a foundation for a business competition to attract and support firms that will engage in Kakuma to support the provision of goods and services at the camp.

Ultimately, to address drivers of fragility, conflict, and violence we have to do things differently. We must systematically address the core drivers of fragility; work across the full spectrum of FCV; and forge partnerships with security, development, humanitarian, and private sector organizations. That is the only way we can prevent violence and suffering throughout Africa and give the continent’s countries—and their people—a chance to achieve their highest aspirations.

VIEWPOINT

Life in fragile states: A young girl’s journey

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04.

The first time I opened my eyes, I was in a refugee camp. I thought the camp was my country, only to learn later that it was not. I was told that South Sudan is my home, a country swallowed by an aimless civil war and severe famine. Then, like any refugee, I hoped of one day seeing my homeland, however dangerous it may be.

It was the hardships I endured at the camp that inspired me to help girls and women in South Sudan. Out of the 30 girls that I started pre-primary education with in the camp, only three of us made it to university. Many of the girls faced insurmountable challenges like early childhood marriages—often a source of family income—and lack of parental support toward their education because of the financial restrictions of poverty. It was heartbreaking to watch my classmates encounter such devastating roadblocks.

On my own journey, I found strength in the words of Nelson Mandela: “Everyone can rise above their circumstances and achieve success if they are dedicated to and passionate about what they do.” My education from Uganda Christian University in the field of economics was obtained through my hard work and determination to defy all the odds in the refugee camp. The support from my parents and the access to a few limited resources and services enabled me to go to university and become one of the few educated and empowered young girls from the camp.

My experience in the refugee camp gave me the strength to endure the challenges and the desire to help others.

On January 9, 2005, the civil war in South Sudan ended and we headed back home. Upon arrival, the home we had been looking forward to seeing was not much of a house. Everything was in ruins; we had to start rebuilding our lives. To our dismay, after a few years of rebuilding another war broke out—but this time we stayed.

People have often asked me what it means to live in South Sudan, a country that has been drastically affected by violent conflicts, a so-called fragile state. Imagine feeling that you can die at any time. Imagine being surrounded by guns, bitterness and agony, massive loss of lives and property, poor health care and education, inaccessible infrastructure, systematic violations of human rights, and severe famine. I would not wish it on anyone. But my experience in the refugee camp gave me the strength to endure the challenges and the desire to help others.

Having spent my entire life as a refugee in a foreign country, and after seeing the abuse that young girls face in fragile states, I decided to develop an initiative to empower and give hope to young girls in South Sudan. In November 2017, I created the Nasvick Initiative, with the primary objective to promote women’s soccer in South Sudan. The initiative uses women’s sports as a platform to promote peace and reconciliation during this recovery period, with the theme “shoot to score, not to kill.” We currently work with 924 girls, and the turnout for games per team has increased from 22 girls to more than 30 across the country. We now have 42 teams and are expanding to engage more girls.

Though there are initiatives like mine to improve life in fragile states, there is still a need for the government and policymakers to promote local youth initiatives and interventions that focus on peacebuilding as we strive toward rebuilding South Sudan. Civil society should speak for the voiceless, like the young girls I knew in the refugee camp. Surrounding countries and the African Union should treat refugees and foreigners as fellow Africans with love and the spirit of “Ubuntu,” meaning humanity toward others. Countries must also stop funding and fueling conflicts in neighboring countries.

I feel fortunate to have been a recipient of the 2018 Young African Leadership Initiative Fellowship, which allowed me to travel and study in the United States and

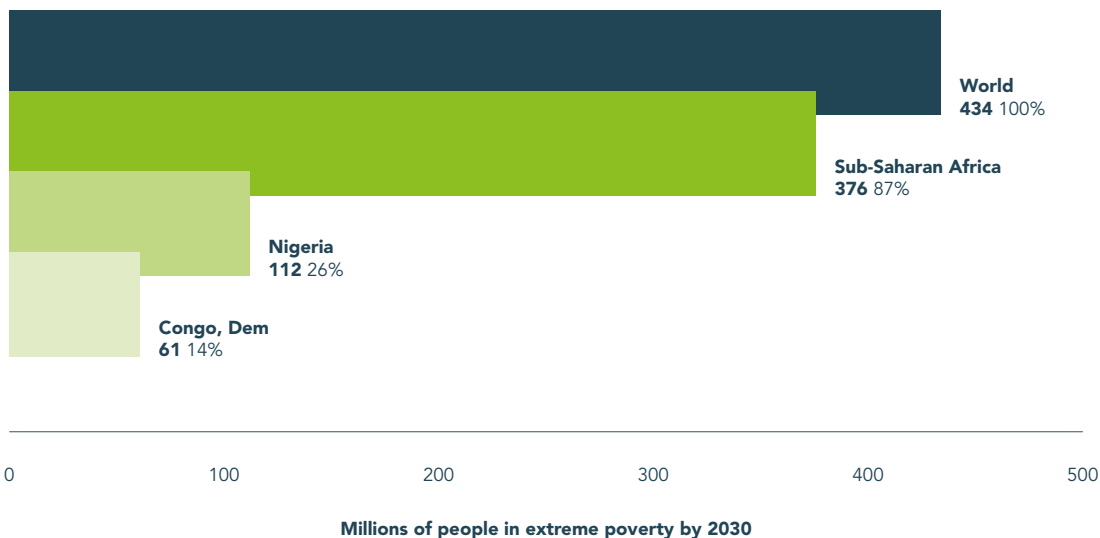
to meet many other talented young Africans. The European Union and United States should channel their financial aid and support to similar education and human capital development programs, like the Mandela Washington Fellowship, whose impact can be felt through their activities, rather than sending grants or giving loans that end up in the pockets of a few corrupt officials. It may also be useful to use other implementing partners to run their programs in the country, rather than the government, where it is hard to hold individuals accountable.

Through all of this, we must give hope to those who have been marginalized so that they too can “rise above their circumstances and achieve success.”

There is still a need for the government and policymakers to promote local youth initiatives and interventions that focus on peacebuilding.

Figure 4.4 Projected extreme poverty in Africa compared to the world

The weight of the SDG on Ending Extreme Poverty by 2030 will fall on sub-Saharan Africa's shoulders. In particular, Nigeria and the Democratic Republic of Congo together will account for 44 percent of the world's extremely poor.

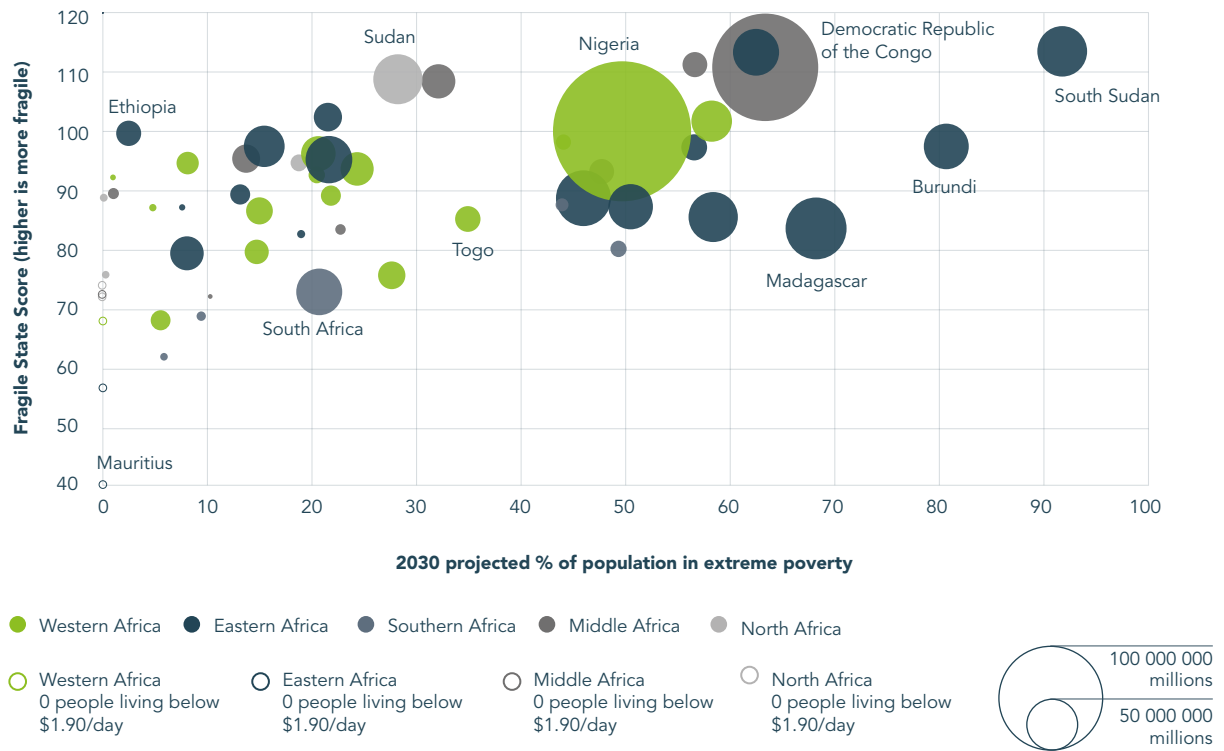


Note: Percentage for each bar reflects percent of global total. Extreme poverty is defined as the population living below \$1.90/day in 2011 PPP.

Source: World Poverty Clock by World Data Lab, data as of January 2019.

Figure 4.5 The relationship between current fragility and projected extreme poverty

The most fragile African states today subsequently risk having among the highest percentage of people living in extreme poverty by 2030.



Note: Extreme poverty is defined as the population living below \$1.90/day in 2011 PPP.
 Source: Brookings calculations using Fund for Peace 2018 Fragile States Index