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CHALLENGES FOR GROWTH AND POVERTY REDUCTION IN FRAGILE STATES

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It is estimated that while fragile states contain only 14 percent of the world's population, they contain nearly one third of the world's poor people.¹ While the Asia-Pacific region has, on the whole, seen steady growth and development, many states (and areas within states) are simply being left behind. Bridging the divide will require ADB to work more effectively with its weaker member countries.

1 WHAT ARE COMMON CHARACTERISTICS OF FRAGILE STATES?

1. The designation of fragile state is quite broad and sources of fragility, instability, vulnerability, and weakness can vary widely. The ADB uses the phrase “weakly performing countries” (WPC) to describe its fragile member states. ADB identifies WPCs based on Country Performance Assessment rankings and conflict considerations. Weak performers are those that are either:

- (1) ranked in the fourth and fifth quintiles on CPA assessments for 2 of the most recent 3 years, or
- (2) considered to be in conflict or post-conflict and thus vulnerable.

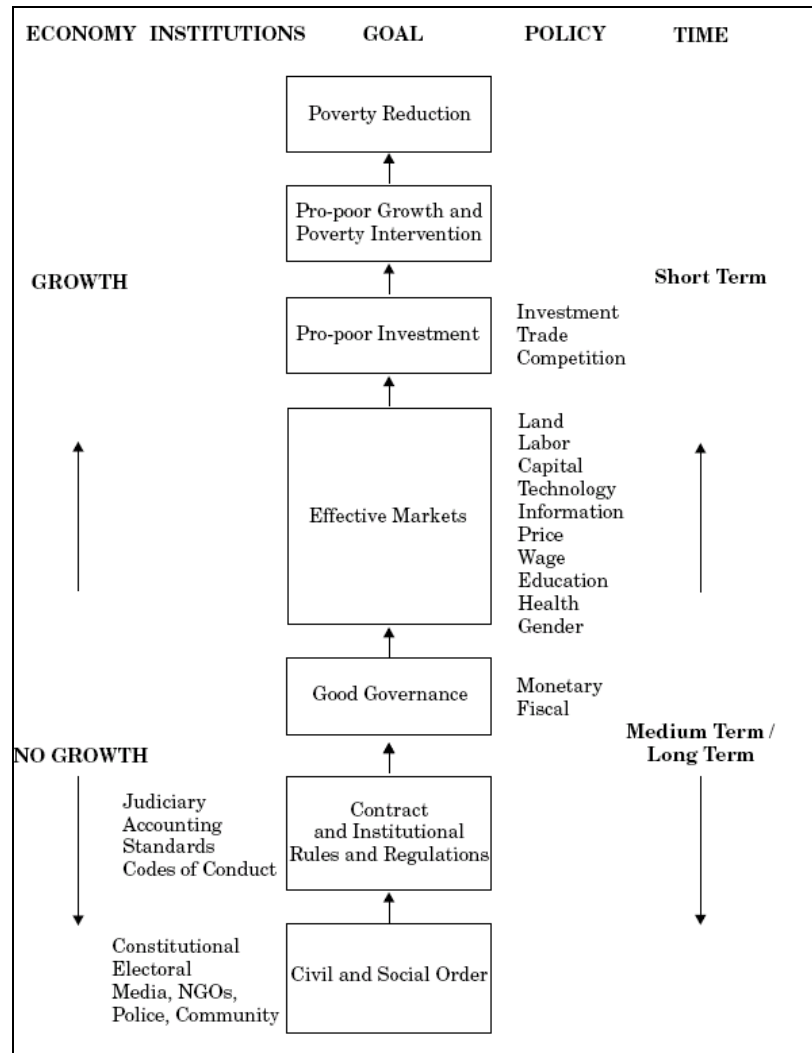
2. In general, the characteristics of fragile states, as described by different development organizations, include:

- inability or unwillingness to assure the provision of basic services and security to their populations (US AID)
- very weak policies, institutions and governance (World Bank)
- political, economic, and social systems that are confronted with challenges with which the existing institutions and organizations are potentially unable to cope (Crisis States Program)
- serious erosion of the three central government functions (security, welfare and legitimacy/the rule of law), with potential consequences to other parts of the world with regard to security and development (German Institute for International and Security Affairs)
- weak policies and institutions where there is little chance of sustainable development (AusAID)

3. In short, fragile states are essentially those in which the necessary building blocks for growth and development are weak or non-existent. There is a certain hierarchy of conditions, therefore, that should be considered when looking at fragile states.

¹U.K. Department for International Development. 2005. *Why We Need to Work More Effectively in Fragile States*. DFID. London.

4. The following conceptual framework² provides a useful illustration of this hierarchy and these necessary building blocks for growth. Moving from the bottom upwards, the framework shows that civil and social order, effective institutions and good governance really have to be in place in order for investment, growth and ultimately poverty reduction to occur. This is the basic challenge for fragile states. This conceptual framework is a useful guide for development practitioners in prioritizing, sequencing, and characterizing interventions aimed at reducing fragility and encouraging growth.



Source: Duncan and Pollard 2002 (see footnote 2).

5. In defining and describing fragile states, it is also important to note that there exist (in addition to different types of fragility) varying degrees of fragility. This is illustrated by the variety of terms used in the development arena to describe different

² Duncan, Ron and Pollard, Steve. 2002. *A Framework for Establishing Priorities in a Country Poverty Reduction Strategy*. ADB ERD Working Paper Series No. 15. Asian Development Bank. Manila.

magnitudes or levels of fragility: *vulnerable, weakly performing, failing, failed, crisis, recovered states*, and so on.

6. Moreover, fragile states aren't always static. States can move into and out of fragility. The Pacific Island nation of Nauru, for example, whose citizens at one point enjoyed the highest per capita income levels in the world, has in recent times gone from being a relatively stable state to being described as a *failed* and now *recovering* but still *vulnerable* state.

7. While development organizations have traditionally centered their focus on fragile states, in recent years the focus has expanded beyond national levels and is beginning to include weak or fragile provinces and lower level jurisdictions.

2 THE PACIFIC ISLANDS: A FRAGILE REGION?

8. Fragility comes in different shapes and forms, and the Pacific Islands offer examples of different types of fragile states. Of course, the Pacific Islands are not all the same; there is much diversity in terms of cultures, languages, geography, governance systems, and natural resource endowments. But using the characteristics of fragility listed above, almost all are fragile in one or more ways³. Some development organizations have even gone as far as considering the entire Pacific Islands as one large fragile region.

9. While major indicators for the ADB's 14 Pacific Developing Member Countries (PDMCs)⁴ show mixed results in terms of development outcomes, the region in general lags behind other ADB regions in terms of basic economic and social advancement.

10. The economies of the region are generally small, slow growing, poorly diversified, volatile and heavily aid dependent. Policies and institutions remain underdeveloped and weak. Political instability (including frequent changes in governments and military coups) and public unrest (including riots) are not uncommon. High unemployment, growing poverty, poor human development outcomes, and faltering social protection systems are all well documented. The islands are also highly vulnerable to natural disasters and the effects of climate change (especially sea-level rise).

11. The foundations of development are still weak across most of the Pacific Islands and this has led not only to inequality and non-inclusive growth, but also to very slow or no growth whatsoever. ADB engagements in the Pacific have therefore increasingly focused on governance, economic policy and related sector and thematic work in an effort to bolster these foundations. In addition, ADB and AusAID are working to establish a Weakly Performing States Trust Fund which would focus on good governance, capacity development, and institution-building.

3 WHAT ARE THE UNIQUE GROWTH CHALLENGES OF FRAGILE STATES?

12. Fragile states face unique challenges that do not typically exist in better performing or non-fragile states. In the Pacific, the difficulty in providing good

³ The Pacific Islands all have relatively very small economies; but this does not necessarily create fragility.

⁴ Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu.

governance has been identified in a number of studies as the overarching challenge⁵ and constraint to growth. Moreover, many fragile states in the Pacific (as well as in other regions) are still transitioning from traditional to modern systems of organization and governance. Reconciling old and new systems and striking a balance between them is not always easy and often creates uncertainty and instability.

13. Women, minority groups, the poor, non-government organizations and the media are often marginalized and lack a strong voice in fragile states, which leads to weak demand for improved governance and accountability.

4 HOW CAN ADB BETTER ENGAGE AND STRENGTHEN FRAGILE STATES?

14. Because fragile states have unique circumstances and challenges, traditional approaches may not always work. The ADB clearly recognizes this and has recently articulated its approach to working more effectively with weakly performing member states.⁶ In short, this approach stresses better working partnerships (with states and other donors) and stronger and more integrated engagements.

15. The following are some additional recommendations on how to better engage and strengthen fragile states. Some of these recommendations echo approaches already identified by ADB and some are overlapping.

16. **Implement, Monitor, Evaluate, Refine the Plans.** Perhaps the first (and most obvious) recommendation would be for ADB to put its new approach into effect. This approach contains a number of very useful ideas that should be implemented, monitored, evaluated, and refined along the way. These include approaches to strengthen the foundations and building blocks of growth and development. In addition, ADB's plan to establish a Weakly Performing States Trust Fund (in conjunction with AusAID) to channel dedicated resources towards good governance and institution building in fragile states should be implemented.

17. **Focus More Attention and Resources on Fragile States and Regions.** Many fragile states and their millions of citizens are simply being left behind. They need more attention and resources from ADB and other donors. In middle income countries (that may not necessarily be fragile), ADB should focus more on the fragile jurisdictions and areas. In pursuing larger business opportunities in non-fragile countries, ADB should not forget that some formerly fragile states and small economies have grown into relatively stable states with growing economies.

18. **Hire Passionate and Interested Staff.** ADB staff and consultants who are designated to work with and within fragile states must be interested and passionate about helping these states and their peoples. Without this underlying interest, their motivation, capacity, and ability to work well with peoples of fragile states may be weak.

19. **Sharpen the Diagnostics, Understand the Underlying Connections.** Fragility and instability often stem from obscure, underlying social-cultural-political factors that are not always easy to see. ADB staff or consultants often misunderstand or are ignorant of these underlying factors (the *iceberg* metaphor is often used to illustrate this – there

⁵ Lightfoot, Chris; Ryan, Tony; Quitazol, Joy. 2001. *Poverty: Is It An Issue In the Pacific?* Asian Development Bank. Manila.

⁶ Asian Development Bank. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries.* Asian Development Bank. Manila.

are below-the-waterline factors that are not immediately visible). ADB staff and consultants working with fragile states must possess more than just hard development economics skills. Social and political analysis should be employed to see what's below the waterline. Without sharper diagnostic capacity, it will be difficult to determine, for example, a country's true commitment to reform (see section below on *willing* and *able*). ADB management must be prepared to allow its people to follow non-traditional approaches. Diagnostics should be sharpened in order to have more effective and informed interventions altogether.

20. **Identify and Leverage Core Competencies.** Strengthening a fragile state often requires multiple interventions in governance, finance, security, infrastructure, and so on. But no one donor can do it all. ADB should identify what its core competencies are and then pair up these competencies with those of other donors so as to create more integrated and complementary approaches. The Pacific Islands are recipients of technical assistance and aid from literally dozens of countries and regional and international organizations. However, it is not always clear which organizations are strongest at different types of assistance. Leveraging and coordinating core competencies can help optimize donor assistance in fragile states.

21. **Establish Better Monitoring, Response and Prevention Systems.** States can move between varying levels of fragility. The ADB should develop better systems to monitor and detect when states may be tending towards greater fragility and should try to develop better response and (most importantly) prevention mechanisms.

22. **Distinguish Between *Willing* and *Able*.** Recent analyses on fragile states recognize the importance of distinguishing between willingness and ability to make improvements. These two variables create four general types of fragile states: the willing and able, the willing and unable, the unwilling and able, and the unwilling and unable.⁷ Donor interventions must consider these important differences since each type of fragile state will require a different approach. The Marshall Islands, a relatively *unwilling and unable* fragile state, continues to receive aid and technical assistance programs that are probably better suited for *willing and unable* states and this is perpetuating aid ineffectiveness.

23. **Plan and Prepare for a Long Haul.** Growth and development in any nation typically requires a considerable amount of time. This is especially true in the context of fragile states with many binding constraints to development (particularly the basic building blocks of strong institutions and good governance). The ADB should be prepared to enter into longer-term partnerships and engagements with its weakly performing member countries and, in doing so, it must not unrealistically demand quick and immediate results. Modalities and time horizons for fragile states need to take longer term views.

24. **Improve Effectiveness of Capacity Development.** Fragile states suffer from limited capacity at multiple levels: individual, organizational, sectoral, institutional and environmental. The ADB and the fragile states themselves must therefore understand and consider *capacity systems*. Recent analysis⁸ of ADB and other donor funded technical assistance projects in the Pacific has identified some fairly clear principles for success in capacity development in fragile states. Detailed recommendations have been

⁷ U.K. Department for International Development. 2004. *Fragile States: Defining Difficult Environments for Poverty Reduction*. DFID. London.

⁸ ADB RETA 6245: Strengthening Pro-Poor Policy in the Pacific (Capacity Development Study)

put forth to ADB to improve contextualization, institutionalization and management of capacity development efforts. Effective capacity development in fragile states essentially requires broad-based participation, a focus on building capacity to demand, political-economy considerations, and flexibility.

25. **Forge Stronger Partnerships with Civil Society and Media.** A free media and a strong civil society sector are essential institutions for development. The ADB has already strengthened its interactions, partnerships (and in some cases financing of) these and other non-state actors in fragile states. These partnerships should be deepened as a long-term approach for improving knowledge of and demand for better governance and accountability.

26. **Increase Consultation and Participation.** A cross-cutting recommendation that will help to catalyze many of these other recommendations is to employ more consultation and participation at all stages of interventions, from diagnostics, to design, to implementation, monitoring and evaluation.

5 CONCLUSIONS

27. While the causes of fragility can vary widely, the consequences are fairly clear. The characteristics of fragility create environments that are highly non-conducive to growth and development. This, in turn, has made aid ineffective in many fragile states and has constrained progress on the Millennium Development Goals and other poverty reduction targets.

28. Fragile states will probably always exist. Nevertheless, effectively implementing these types of approaches (including monitoring, evaluation and refinement of the approaches) should improve the chances for fragile states to strengthen and stabilize their foundations and to raise their development outcomes and the quality of life for their citizens.