



**La fragilité des Etats, un défi pour l'allocation de l'aide:
démêler fragilité, vulnérabilité et performance**

***How state fragility challenges aid allocation:
disentangling fragility, vulnerability and performance***

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The issue in a nutshell

- The so-called “performance based allocation” of aid (PBA) gives an overwhelming weight to good policy and governance
- But the “fragile states”, that are recognized to need special support, are themselves designed by a low level of policy and governance (more or less reflecting a lack of authority, capacity and legitimacy)
- Then the needed special support given to fragile countries and in particular those affected by conflict appears as a major exception to the PBA
- How to reconcile the two approaches?



PBA formula (IDA)

- $A_i = \text{CPR}_i^5 \cdot \text{GNIpc}_i^{-0.125} \cdot P_i$
- $\text{CPR}_i = 0.24 \text{CPIA}_{\text{ABC}} + 0.68 \text{CPIA}_{\text{D}} + 0.08 \text{PORT}$

PBA formula (AfDF)

- $A_i = \text{CPA}_i^4 \cdot \text{GNIpc}_i^{-0.125} \cdot P_i$
- $\text{CPA}_i = 0.26 \text{CPIA}_{\text{ABC}} + 0.58 \text{CPIA}_{\text{D}} + 0.2 \text{PPA}$



The response as presently given

- Design of a special category benefiting from a special treatment, with definitions and devoted schemes differing
 - according to the international financial institutions
 - and changing over time (eg IDA: successively Licus, fragile states, post-conflict, fragile and conflict affected..., FAD: post conflict, then fragile states)
- Possible use of specific criteria of performance for those countries: for instance at IDA the « post-conflict performance index » (PCPI)
- Supplementing the allocation rules by new instruments to face crises, such as a « crisis window » (IDA)



AfDB and IDA operational treatment of FS compared

- Similar PBA formula (slight differences in coefficients)
- Specific enveloppes for FS
- Specific indicator of governance for within IDA, not at AfDB
- Adjustment coefficient (top up) with the same indicator at AfDB, for Pillar 1, plus Pillars 2 and 3
- Not the same name: now “ FS ” for FAD, FS&CA for IDA
- Not the same list of African countries, although ongoing convergence



Outline of the argument

- (I) Shortcomings of the present approach of fragility, as an exception to the PBA, whatever its usefulness
- (II) Possible content of a new approach, taking into account the structural vulnerability of countries



(I) Shortcomings of the present approach to fragility

- The *design of state fragility*, unavoidably debated
- *Discontinuity* and threshold effects due to the use of a category
- An approach not addressing the structural causes of fragility, i.e. purely curative and *by no means preventive*
- A confusing mix of aid *allocation* and *modalities* issues...
- Risks of indirect perverse effect



The design of state fragility...

- In 10 years, many definitions, not a clear concept, even a fragile one
- Around 2005 meetings and papers at the DAC (fragile states group), USAID, DFID... following previous naming (difficult partnership, failing states...)
- “ Lack of political commitment and insufficient capacity to develop and implement pro-poor policies ” (DAC)
- “ Government cannot or will not deliver core functions to the majority of its people ” (DFID)
- More generally there is a lack of (state) capacity, political will and legitimacy



... and the identification of fragile states

- Initially combination of a low income and a low CPIA, with various kinds of CPIA thresholds, either absolute (WB) or relative (DAC)
- Now attempt at OECD for designing FS both from CPIA and other classifications (which rely on many indicators of quantitative and qualitative elements)... resulting in 43 FS, of which 30 LDCs
- More narrow design implicit in the G7+ group/club (19 countries)
- And (operational) definitions even more narrow in the MDBs



FS at FAD and IDA

- ADF (2012) 12 **Fragile States**: Burundi, RCA, Comores, RDC, Côte d'Ivoire, Guinée-Bissau, Liberia, Sierra Leone, Sud-Soudan, Sudan, Togo, Zimbabwe
(2008): 9 Id. less Soudan, Sud-Soudan and Zimbabwe
- This list of 9 countries was quite different from IDA (2009) with also 9 African *Post Conflict and Re-engaging Countries*, not including 3/9 6/12 of 2012, in italics), and including 3 others: Angola, Rep.Congo, Eritrea...
- New (2012) IDA list with 9 African **Fragile and Conflict Affected** countries closer to FAD list, including one more country (Chad) and three less countries: Comoros, Sud Sudan and Togo
- Result from harmonized list of fragile situations including 30 countries (26 IDA eligible) and 2 territories, of which 26 identified from an harmonized average of WB/ADB/AfDB CPIA score <3.2 (21 LDCs), of which 13 with political and peace-building missions or peace-keeping missions (11LDCs), of which 9 African countries



Fragility as distinct from structural vulnerability

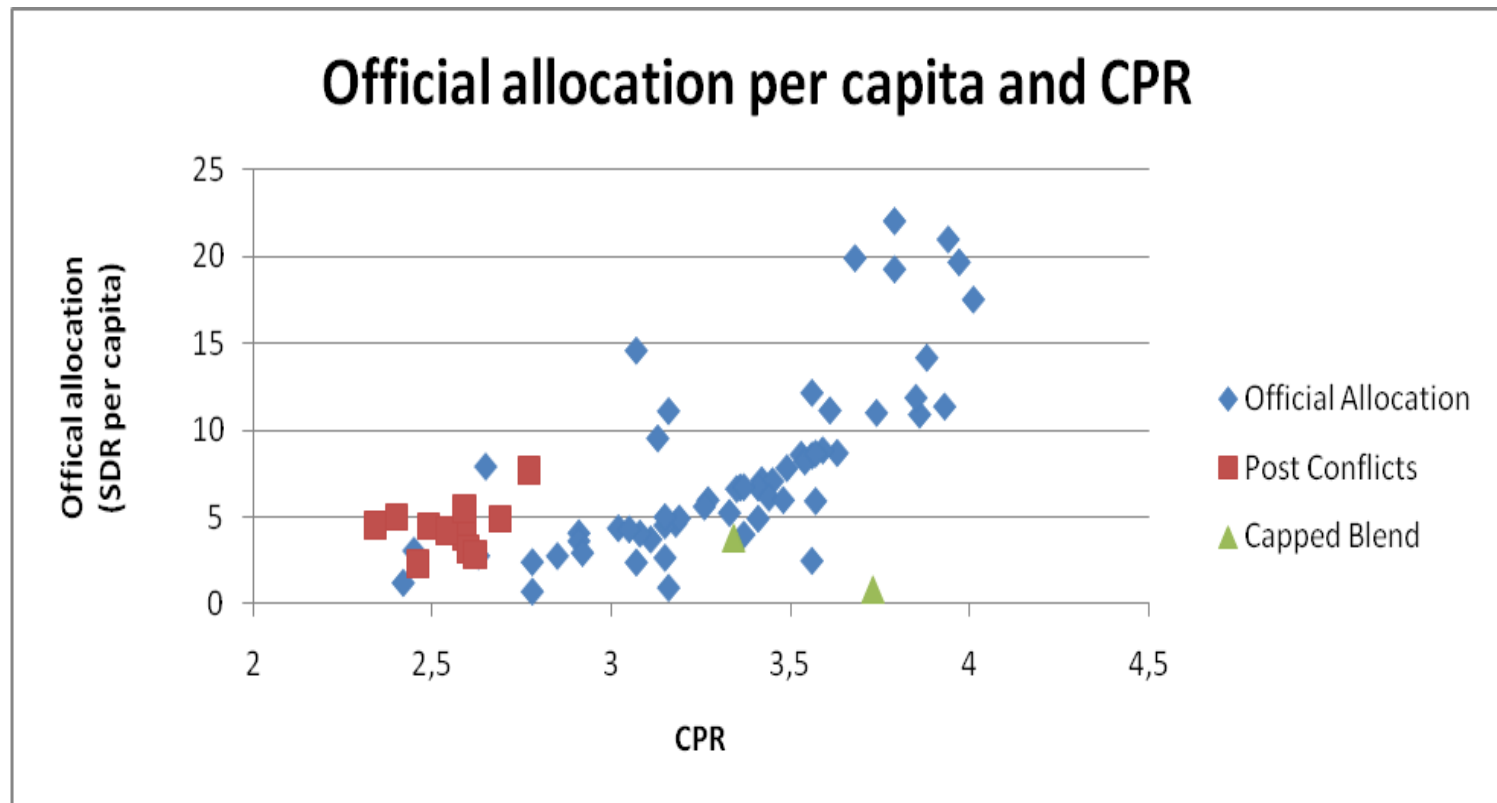
- State fragility, whatever the definition, is designed and identified only from present policy and institutional factors
- Even now observable in MICs... not eligible to FAD or IDA
- Structural economic vulnerability is the risk for a country to be affected/harmed by exogenous shocks (either natural or external)
- It depends on the size of these shocks and the exposure to them, so independent of the present will of the country
- Eg the Economic Vulnerability Index (EVI)



The discontinuity issue

- Result of categorization
- Risk of arbitrariness in the choice of threshold, evidenced by the difference between lists of FS
- Threshold effects: crossing the threshold and being included into the group of FS results in a large deviation from the ordinary treatment (for instance if a CPA decrease of 11% instead of 10% makes a country fragile, it results in an increase of aid instead of a 40% decrease)
- Resulting non linearity in the relationship between “ performance ” and allocation (cf. graph from IDA)

Figure 2. IDA aid allocation in 2009 as a function of the agreed measure of performance





A curative, rather than a preventive treatment: the role of structural economic vulnerability

- Discontinuity induces a treatment of fragility transitional and curative, neglecting a permanent and preventive treatment needed for countries at risk to become fragile
- CPIA, then fragility, undermined by structural factors, in particular vulnerability, as well as low human capital and low income (significant results of a panel estimation)
- High elasticity of CPIA to EVI (-0.3), higher at lower levels of CPIA; major reaction to export instability



A mix of issues of aid allocation and aid modalities: relevance of the differentiation concern

- *State fragility*, distinct from *structural economic vulnerability*,
- Structural vulnerability, a significant factor of state fragility
- State fragility should be taken into account firstly in aid modalities, whereas structural economic vulnerability should be so in aid allocation
- WDR 2011: Box by Paul Collier, “ resolving the donor risk and results dilemma ” :needs should govern allocation, fragility should govern modalities
- *Differentiation* (between kinds of fragility) is indeed appropriate to design aid modalities, a crucial task



Risks of indirect perverse effects

- Identification as “ fragile state ”, meaning very poor governance, may crowd out private investment
- No such effect from the LDC category membership, corresponding to structural factors



(II) A new approach: treating state fragility in an integrated allocation framework

Relying on basic principles of geographical aid allocation:
equity, effectiveness and transparency

and

using common criteria, in particular structural vulnerability
rather than categories



Three principles to be met

- Aid allocation should
 - promote effectiveness (or real performance)
 - meet a need of equity between countries
 - be transparent and predictable (then simple)
- It can be done by taking into account structural vulnerability, and lack of human capital as well, and by using available and agreed indicators, such as EVI for structural vulnerability and HAI for human capital, used at UN for LDCs identification



Enhancing equity, by compensating structural handicaps...

- Among countries, as well as among individuals, promoting equity means equalizing opportunities and capabilities
- Opportunity equalization involves a compensation for structural handicaps
- 2 main structural handicaps to growth are in LICs the vulnerability to exogenous shocks and a low level of human capital, two obstacles not considered in the PBA
- These two handicaps, along with a low income pc, are the main features and identification criteria of LDCs
- Most LDCs are or have been once classified as FS



... leading to a more genuine concept of “performance”

- Performance means outcomes with regard to initial and exogenous conditions
- Adding criteria of structural handicaps to the assessment of policy/governance (CPIA) amounts to adjusting this assessment for the significant negative impact of these handicaps on policy
- It would lead to a more genuine concept of performance, more favourable to all FS
- It would lead to an *“Augmented performance based allocation”*



Aid effectiveness : drawing lessons of literature (the stabilizing impact of aid)

- A double main lesson of literature: aid effectiveness is conditional on the features of recipient countries, but
- Although present policy is a significant *positive* factor of growth (or fragility a negative one), its impact on aid effectiveness is *uncertain*
- Although vulnerability is a significant *negative* factor of growth, its impact on aid effectiveness is *positive* (Chauvet & Guillaumont 2001, 2004, 2010; Collier and Goderik, 2010)
- Effect linked to the stabilizing impact of aid (Ibid and Guillaumont Jeanneney and Tapsoba 2010)
- Using vulnerability as a criterion of aid allocation makes it more effective to promote growth



Increasing transparency and consistency, weakened by the exceptions to the rule

- Implementation of the PBA has needed exceptions to the rule, in particular for country size and state fragility
- Transparency and consistency improved by limiting exceptions
- Size can be treated on a more continuous basis (pop. exponent <1)
- Using *structural* economic vulnerability and human capital indicators which are quite more stable than CPIA would contribute to make allocation more stable, predictable... as well as less procyclical (CPIA & CPA not stable and allocation highly sensitive to small changes of CPA , moreover often procyclical)
- It would make the allocation more transparent and consistent



What would be an optimal solution?

- Treating the case of fragile states and conflict-affected in an *integrated framework...*
- ... with exceptions limited to very few cases of extreme fragility or conflict needing a special attention of the international community
- Two main features of the approach
 - *it relies on criteria*, not on a category
 - it uses *common criteria* for all eligible countries and not specific criteria for the countries belonging to this category



Using criteria rather than a category, in particular structural economic vulnerability

- 2 new criteria to be taken into consideration: structural economic vulnerability and low level of human capital
- It results in a more continuous approach, avoiding threshold effects of the category
- It is more preventive, by dampening the possible impact of shocks in vulnerable countries (not yet “fragile”...)
- It avoids an abrupt diminution when a country is said no longer fragile, then lowers the risk of resurgence of fragility and conflict



Towards more uniform criteria

- Policy and governance of FS would not be assessed from a specific index (such as PCPI at IDA)
- But CPIA would include a dynamic cluster reflecting the *improvement* in security and peace indicators, that are likely to significantly improve *only* in fragile and post-conflict countries
- Thus it would capture the specific performance of the fragile states
- Other dynamic and outcome based components could also be used for CPIA



Feasibility of the approach

- Possible to use agreed and stable indicators, such as EVI (Economic Vulnerability Index) and HAI (Human assets Index), set up at UN for the identification of the LDCs or similar ones
- Useful to retain an exponent lower than one for the population in the formula, as done by As DB, again to avoid threshold effects resulting from caps and floors corresponding to very low or very large countries
- For FAD in 2008 and IDA in 2009 it would have resulted in an allocation to the fragile states at least equal or higher than the official one (depending on simulations)



Increasing support of the approach

- Move of ideas in favour of taking into account structural vulnerability for aid allocation
- UN SG report to the *Development Cooperation Forum* in 2008, then again in 2010
- *Joint Ministerial Declaration* on Debt Sustainability, from Commonwealth and OIF, 2009, followed by more recent positions from Commonwealth and from Zone franc Finance Ministers
- Examination of this topic in a study of the *AfDB* 2009



An increasing need of a consistent solution

- Increasing risk of inconsistency with the present system, and need to find a solution, since the exception may become the rule: potential increase in the number of FS and decrease in the number of FAD or IDA eligible (according to Ben Leo, the number of IDA eligible countries is likely to have decreased from 68 in 2010 to 31 in 2025)
- Fragile and/or structurally handicapped countries are the least likely to be graduated
- Most of the remaining eligible countries will then be either fragile states or structurally handicapped countries, most of them being LDCs
- Exceptional and political treatment will remain for cases of extreme and sudden fragility



More details from the author in

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