# Pourquoi et comment tenir compte de la situation des pays pauvre les plus vulnerables, en particulier les pays moins advancés?

**Giorgia Giovannetti**

**Session 4: OMD (ODD) apres 2015: vulnerabilité contre Durabilité**

**FERDI, January 10° 2014**

# Outline:

- **Why** poor vulnerable countries (and also fragile countries- *Lisa: high overlapping*)
- **Some numbers** on financial flows to vulnerable countries (key for vulnerable countries to achieve MDGs) and considerations on **trade off and synergies** between different flows (aid, remittances, FDI, trade & domestic resources) (no numbers on MDGs for sake of time)
- **How: aid quality and differences in aid delivery** (Fragile versus non fragile countries); **volatility matters: better little but stable than a lot but unstable**; budget support or not? role of civil society; problem still unsolved; **tackling what has been identified as missing in the MDG.**
- **Conclusions and policy implications**

# Why poor vulnerable countries:

- **They host a large and increasing number of poor people;**
- **One-fifth (18.5%) of the world's population lived in vulnerable/fragile countries in 2010, i.e. about one-third of the world's poor** (400 million out of 1.2 billion, i.e prevalence of poverty 20% in developing compared to 40%). Hence, **poverty is increasingly concentrated in vulnerable countries** (Sumners, 2012).
- Around **280 million poor people are living in just five fragile states: Nigeria, the Democratic Republic of Congo, Bangladesh, Pakistan and Kenya.**
- **The share of the global poor living in Middle Income Fragile States (MIFS) has increased 17-fold between 2005 and 2010** (Chandy, L. and Gertz, G. 2011).

# Why poor vulnerable countries, 2

- **Inequality is high** and increasing;
- Vulnerable countries may be a source of instability and fragility.
- **Despite a global decline in conflicts and poverty** over the last decade**, vulnerable countries still suffer** disproportionately **from both**.
- 2011 World Development Report reported that **no low-income fragile or conflict-affected country had achieved a Millennium Development Goal (MDG).** But, in 2013 the Global Monitoring Report stated that things have changed: progress towards gender parity, poverty reduction etc. (20 countries likely to achieve some goals, 7 have achieved poverty reduction).

# Why, 3

- With few exceptions, in the last decade, **most vulnerable countries have also lost ground** In terms of **economic growth** compared to other developing countries and the impact of growth on poverty varies across countries and income groups.
- But even in countries with improved economic statistics, the high level of **inequality often masks the reality that large populations still live in high poverty.**
- Angola, Nigeria, Ethiopia and Rwanda have been among the fastest growing countries of the past decade; rapid growth has allowed Angola and Nigeria **to graduate to middle-income status. (**But in Zimbabwe per capita gross national income has dropped over 40% between 2000 and 2010).
- **Rapid urbanization** (GMR 2013) inducing new challenges but also i**n town life is (seems ?) "better" according to/to reach some MDG; urbanization has helped reducing poverty and has increased (i) access to services (ii) quality of services (healthcare, education, access to sanitation & safe water) the "premium" motivates poor to migrate to cities……**

# Why, 4

- **Vulnerable/fragile countries have a very poor human development record;** The Human Development Index has varied considerably with **very modest progress** as a group.
- Hence, **vulnerable and fragile countries matter because they host a large and increasing number of poor people and have a poor human development record**. They also **underwent a rapid urbanization**, without solving the challenges (urban slums … making more stringent problems of urban planning and infrastructures; living in a slum does not give access to services); also **cities (often) contribute to environmental degradation.**
- Reasons that triggered interest in the first place have not faded away.
- **Increase in inequality** can itself trigger an increase in fragility.
- **Very little progress in those that had been identified as causes of vulnerability/fragility**

# Numbers: ODA

- **Development co-operation has been growing since 2000**, benefitting from **growing ODA from DAC donors**, an **acceleration in the engagement** (development, trade and investment) **of emerging countries, and growth in philanthropic** giving (from both developed and developing countries).

- **Official development assistance (ODA) is the biggest financial inflow**. In 2010, **ODA to fragile states represented USD 50 billion, or 38% of total ODA**. Between 2000 and 2010, **per capita ODA to fragile states grew by 46%, while it only grew by 27% in non-fragile states**. But **CONCENTRATION** is very high: In 2010, half (49%) of total ODA to fragile states went to only **7 recipients** (out of 47 considered fragile by OECD and WB): Afghanistan, Ethiopia, the Democratic Republic of Congo, Haiti, the West Bank and Gaza, and Iraq. Concentration is also an issue at the country level. **Countries such as the Republic of Congo and Iraq depend on one donor for over half their aid** (Excessive?). At the other extreme, the West Bank and Gaza and Afghanistan suffer from an **overabundance of small donors, making co-ordination difficult**.
- Heterogeneity between different situations makes it difficult to speak of vulnerable/fragile countries as a group.

# Numbers: Cooperation from non DAC

- **Development co-operation from non-DAC members** has also **increased** in the past decade, **along with growing trade and investment**. But with the exception of China, most Non DAC members (e.g. Brazil, India and South Africa) have a **regional focus to their engagement**.
- It might be noteworthy to say that the **sector composition of ODA in vulnerable countries has changed over the years**, with **growth in**: **government and civil society; health; economic infrastructure and services; and humanitarian aid**. However, at the aggregate level it is difficult to determine whether these trends have been going in the "right" direction.
- This analysis can only be done per country, based on context. **HIGH HETEROGENEITY (of flows and outcomes** -Lisa**).**
- **Note that aid remains very volatile**: **each vulnerable country has had at least one aid shock in the past 10 years**. **This is a big problem** (for efficiency).

# Numbers: Remittances & FDI

- **Remittances are the second largest source of external finance in volume; their share has also increased over the past few years, providing critical support to many communities. Remittances** (which are countercyclical) provide **relatively more stable sources of income** than most other external flows, and **in transferring social values**.

- **Net foreign direct investment (FDI) has also risen in volume over the decade, but remains at about half the level of ODA and remittances. Vulnerable countries tend to run large trade deficits**.
- **Trade and FDI are pro-cyclical.** FDI tend to be concentrated in a small number of sectors, typically in extractive industries (fragile).
- Vulnerable countries are very **capital-poor compared to other developing countries and need a prolonged phase of "investing in investing"**.
- **FDI and trade can help reducing vulnerability (and fragility)**, creating jobs and growth and enlarging the tax base, possibly in combination with other measures.

# Numbers: Trade

- **Trade is increasingly characterized by the emergence of global value chains**, which encompass the geographically dispersed range of activities needed to bring a product from its conception to its end use and beyond.
- This has **two consequences for vulnerable countries**: on the one hand, **it allows industrialization at a much earlier stage of development as firms choose to move fragments of their production chain to countries where labor is cheaper or where other locational advantages confer a competitive cost advantage on the whole global value chain** (e.e. garment industry in Haiti, Collier, 2009).
- On the other hand, **global value chains penalize countries that are poorly connected to global markets due to natural barriers, poorly-functioning institutions, or trade restrictions**.
- Among the 30 countries at the bottom of the 2012 Doing Business list, 20 are fragile or vulnerable countries (World Bank, 2012).
- **Aid for trade support can help these countries to alleviate these binding constraints by reducing trade costs and promoting linkage to regional and global value chains.**

# Numbers: urbanization

less than 25 % of the rural population has access to sanitation, 50% (or more) of the urban population

- Extreme cases, in 2010: differentials of 70% in access to safe water in Ethiopia, Niger, Gambia, and Sierra Leone (the average differential in developing countries is around 15 percent) .
- But also inadequate infrastructures (& rapid depletion) in cities
- Rapid growth of cities without new infrastructures  will worsen situation
- In slums no safe water, no sanitation, no sewage

Infant mortality rates are higher in Rural by:

- 8-9 percentage points in Latin America, Eastern Europe and Central Asia;
- 10-16 percentage points in MENA, South Asia and Sub-Saharan Africa;
- 21 percentage points in  East Asia

# Prospects are gloomy:

- *Lisa: vulnerable versus fragile countries.* **The long trend of growth in ODA to vulnerable countries is at serious risk given the current fiscal stress** (negative impact on aid budgets) **in OECD countries**. In 2011 ODA fell (-2.7% in real terms, excluding debt relief), breaking a long trend of annual increases (OECD, 2012b)
- **Half of fragile states are expected to see a drop in aid between 2012 and 2015**. **This fall is likely to occur at the same time as poverty is becoming increasingly concentrated in fragile states, and makes more difficult progress toward MDGs** and **urbanization continues.**
- **Still large scope for leveraging ODA and remittances to increase private sector inflows (and this should be a priority in policy)**. **Funds are key for progress in MDGs.**

# Domestic resources and positive spillovers:

- Several vulnerable countries are making **progress in lessening their dependence on aid by reforming their tax administration and policies**.
- **But are still far from realizing their tax potential**, especially those (fragile) with abundant natural resources. A growing number is initiating **policy reforms to get a better deal from their extractive industries**.
- **Trade off and synergies** between different flows: **Aid critics have long argued that aid may undermine a country's incentive to raise domestic revenues (particularly important for fragile contexts)**. Similarly, debates continue about whether aid creates adverse **"Dutch-disease" effects on the manufacturing and export sectors**, and **whether aid agencies pull some of the most educated local workforce out of the productive sectors or partner governments, contributing to brain drain**.
- But **without resources it is very difficult to achieve any improvement towards MDGs or SDGs**.

# How: ODA delivery in vulnerable countries

- There are **notable differences in how ODA is delivered**.
- **In non-fragile countries, half of ODA is delivered through the public sector** (i.e. the implementing partner is either the donor government, the recipient government or – in the case of delegated co-operation – a third country government); **only 12% is disbursed through multilateral organizations**.
- **In fragile states, an average of 21% of ODA is delivered through multilateral channels and 34% through the public sector** (**humanitarian and delivered by UN agencies)**. There is only **a modest difference in the non-governmental organization channel between fragile and non-fragile countries** ( this is perhaps surprising given the central role played by NGOs in fragile states). **The "New Deal" identifies five peacebuilding and state-building goals.**
- **The quality of aid to fragile states should be gauged using the principles of ownership, alignment and harmonization, as defined by the Paris Declaration on Aid Effectiveness.**

# How: tackling what was missing from MDGs

**A non exhaustive ex post list includes:**

- **(Goals on) sustainable Development** (SDGs) and climate change;
- **Inequality, vulnerability and exclusion;**
- **Jobless growth and growth with low quality employment;**
- **Migration related targets (and urbanization)** - increasing global population;
- **Tackling poverty in middle-income countries;**
- **Security, conflicts, fragile states related issues**

# Summing up:

- **The poverty picture is changing** from poor people in poor countries (73% of the world's poor in low-income countries in 2005) to **poor people in middle-income countries** (65% of the world's poor in 2010), a quarter of which are fragile **Global poor increasingly concentrated in vulnerable countries: over half of the world's poor will probably be found in fragile states by 2015 – up from about 20% in 2005** ⇒ **Changes in policy: difference between poverty and "perceived poverty" may affect outcomes in MDGs**;

- **Demographic trends:** In most vulnerable countries the 15-34 age group makes up more than one-third of the population; this proportion is expected to remain steady (decreasing markedly in most non-fragile states). The "youth bulges" issue. **Also rapid urbanization: "Urban" masks differences between different situations (slums): the average does not tell the whole story**

- **International assistance cannot be "business as usual"**. There is the **need to "do things differently."**
- **Similar goals e.g MDGs, MDGs plus SDGs etc, but vulnerable countries and problems require a different approach with (even) greater care**.

# meanwhile….development cooperation and MDGs are changing

- **Developing and emerging economies have been driving global growth (shift of power)**
- **Diversification of actors, instruments and delivery mechanisms.**
- **New sources of development finance**
- Receiving countries **are more and more vulnerable, mainly low-income and African, states**
- **Transformations in the poverty map** and new forces on the supply side of development finance are **challenging the international development architecture**.
- New institutions, business models and practices are **challenging long-established ‘aid industry’ actors**.

# Development cooperation and MDGs are changing, 2

- **Demand side**: many vulnerable countries are seeking to **reduce aid dependency**, or are **graduating to middle-income** status (do have less need for aid?).
- **Supply side: growth of non-DAC aid and philanthropy**; new models of 'person-to-person giving' and social impact investment → challenges for the dominance of OECD-DAC donors.
- **DAC donors increasingly under pressure** to justify their aid spending through results and "value for money". The issue of efficiency
- **MDGs are changing. Are vulnerable countries now taken into account? Not enough**

# Conclusions, 1

- **Focus should be more on:**
  - **What dimension of vulnerability matters most ;**
  - **how different dimensions interrelate;**
  - **what are the channels of transmission; and what are the ways out?**
- An **inaccurate understanding of vulnerability may cause cases of genuine fragility to be overlooked.**

# How to tackle these new concerns: the need for innovative policies

- MDGs are "spatially blind", but especially in vulnerable countries the urban-rural divide exists and affects MDG indicators;
- Heterogeneity is not only between countries (continents) but also within countries (higher probability of social unrest)

Hence,

- a better provision of basic services (safe water, sanitation, education, healthcare) in rural areas, & planning for land use and basic services at all stages of urbanization are essential
- There is a need for a long term horizon in policy making (in a moment where cuts in budgets, uncertainty etc seem to shorten the horizon)

# ERD 2009 suggested 5 key priorities

- **Support state-building and social cohesion (some progress).**
- **Overcome the divide between short-term needs and long-term resilience (not much).**
- **Enhance human and social capital (to be improved).**
- **Support better regional governance, including regional integration processes (some progress)**
- **Promote security and development**

**Three years down the road, and in the new MDG discussion, these suggestions are still valid**

# Thanks!