



FONDATION POUR LES ETUDES ET RECHERCHES
SUR LE DEVELOPPEMENT INTERNATIONAL

**Face à la crise, quelles priorités dans
l'allocation de l'aide?**
*Facing the crisis, which priorities in
aid allocation?*

Introduction by
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A cooperative side event

- Organized by the FERDI
- For the French government
- In cooperation with African governments (Senegal , Burkina Faso, Niger)
- Following an international conference held in Dakar hosted by President A. Wade
- And with the kind participation of other governments and international institutions

The issue to be addressed

- Due to the recent crisis, risk of severe consequences on developing countries
- In particular in low income and vulnerable countries, mostly African countries
- Compromising progresses towards MDGs

Risk of long lasting consequences

- Consequences of export shortfalls are not only short-term consequences cancelled after next recovery
- They are even more the long term consequences of macroeconomic instability on growth and poverty reduction

Role of aid in that context

- Research on aid underlines its role as a factor having dampened the negative impact of shocks and its potential role as an insurance against these shocks: impact of aid on economic growth (and even more on poverty reduction) higher in countries facing important shocks
- Why? Aid can avoid collapses, long recessions, vicious circles, losses in human capital, etc

Aim of the workshop

- How can aid be globally more effective by addressing this old issue of instability, which has become an even more serious and urgent issue, with 2 possibilities
- Taking into account economic vulnerability in *aid allocation* (ex ante answer)
- Using *instruments* allowing a fast mobilisation of additional resources for countries facing shocks (ex post answer)

1. Vulnerability a relevant criterion of aid allocation

- Including vulnerability among aid allocation criteria is an ex ante answer
- All donors have not an explicit aid allocation formula, as the « PBA », which is the most known
- All donors have implicit criteria

Three principles for aid allocation criteria

- Effectiveness: should reflect factors of aid effectiveness (for growth, poverty, MDGs)
- Equity: should aim at equalizing opportunities
- Transparency

Drawbacks of current formulas, in particular the « PBA »

- Not really meet the previous principles
- Overwhelming impact of a subjective assessment of « performance »
- Low weight given to the distance to the MDGs
- No consideration given to vulnerability
- Except through a special and discontinuous treatment of fragile states

Rationale of vulnerability criterion

- Meets the previous principles
- Effectiveness: aid more effective in vulnerable countries
- Equity: structural economic vulnerability is an handicap to growth
- Transparency and consistency: state fragility treated in a continuous framework, and in a preventive as well as curative way

Feasibility: using the EVI

- EVI, Economic vulnerability index , is an index of structural economic vulnerability, set up at the UN for the identification of the least developed countries (LDCs/PMA)
- Includes in a balanced way several indicators (7)
 - of shocks, external and natural
 - of exposure to shocks, in particular small population size

Vulnerability criterion in perspective

- Not the only criterion, other possible criteria being income pc, human capital, and « performance »
- No risk of moral hazard (structural vulnerability)
- Consistent treatment (or relative priority given to LDCs/PMA, SIDS, Fragile states), all groups of countries particularly vulnerable

2. Aid instruments likely to work as insurance

- Priority given in aid allocation to vulnerable countries is only a partial answer
- Specific country shocks may not be adequately covered by the general allocation
- 3 possible types of instruments
 - « shock facilities »
 - fast mobilisation of usual instruments
 - money convertibility guarantee

Shock facilities

- A disappointing past experience during the 3 previous decades...
- Obsolescence of the IMF « CFF », but new prospects of the exogeneous shocks facility (2005), amended last September
- Mixed results of the EU « Stabex » (1975-2000), now replaced by « Flex », still little used and likely to be reformed
- Difficulty to design « automatic » rules

Faster mobilisation of usual resources

- Easier with budget support than with project or even programme aid (procedures cannot be quickly reformed and physical implementation shortened)
- But additional budget support can be delayed by usual (policy instruments) conditionality
- Result based conditionality may fasten disbursements
- Loans with contracyclical debt service (AFD) are also an answer, but have only a limited impact, due to their present coverage

Unlimited guarantee of convertibility (« Compte d'opérations »)

- E.g. French Treasury guarantee to CFA
- Another way by which countries can be allowed to face sudden shortfall of external resources without drastic exchange control or sharp depreciation
- As an insurance contract, also needs rules of monetary and fiscal management, determined ex ante
- In that case may not address the issue of public budget

Why the two approaches are complementary

- Need of ex ante allocation, due to the difficulties to mobilize additional resources: inherent lags and conditionalities
- At the same time, need of ex post and specific instruments, due to the possible gap between the ex ante assessment of vulnerability and the actual size of the shocks, only evidenced ex post

Main points to be debated

- Does the present world economic situation make severe shocks and increased instability likely?
- Is the inclusion of structural vulnerability among aid allocation criteria desirable and possible?
- Are the available aid instruments likely to adequately address the issues not covered by aid allocation?