

Relevance of fragility definition, root causes and challenges for development policies

The ERD approach



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Overview



EUROPEAN REPORT
ON **DEVELOPMENT**

- **Motivation: why fragility?**
- **Few years of growth, some steps in the right direction, but too vulnerable to shocks**
- **Large heterogeneity but some common characteristics**
- **Moving beyond the concept of fragility?
Necessary to have a successful development policy**
- **What does the ERD 2009 do?**

Different definitions of fragility, some consensus

Most definitions share the idea that state fragility is directly related to lack of institutional capacities.

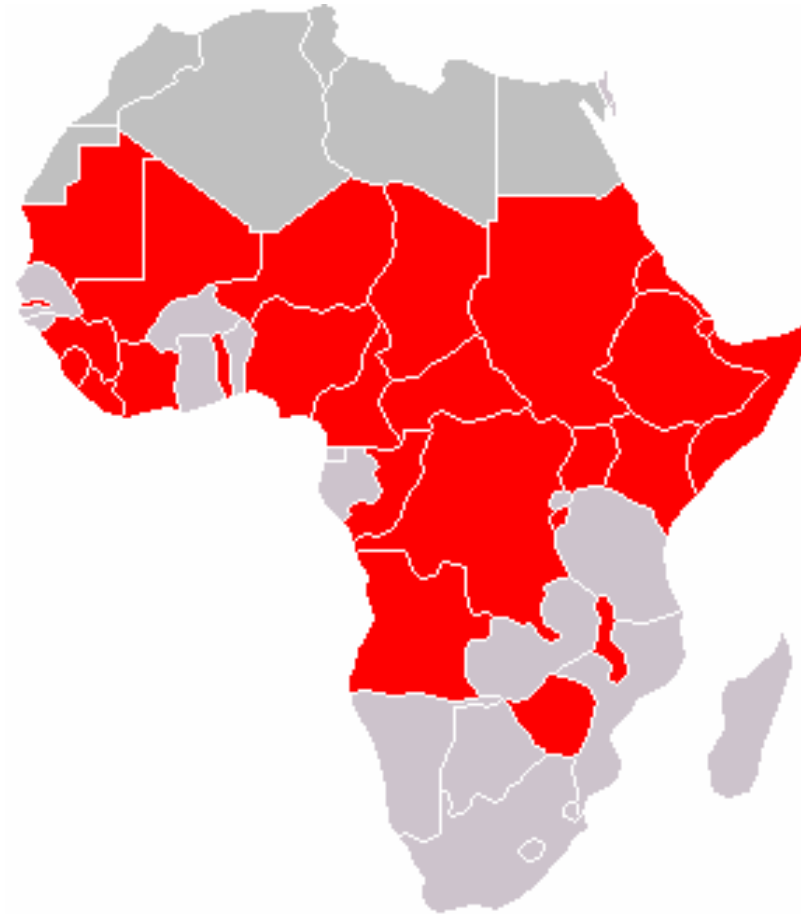
But also, lack of social trust; governments instead of enhancing social trust, tend to worsen it

because characterized by:

- ✓ authority failures**
- ✓ service entitlements failures**
- ✓ legitimacy failures.**

Who do we consider to be in a situation of fragility?

30 SSA countries have been defined as fragile in recent years, according to at least one definition, but rigorous distinction difficult



Situation very fluid, new countries can “get in”, but few can “get out”

Why is fragility relevant?

Fragile countries lag substantially behind in their progress towards the MDGs.

'Fragility' needs to be tackled if progress on the MDGs is to be achieved (Bourguignon et al., 2008)

Fragile states (along with gender equality) pose the greatest challenge for achieving MDG targets (World Bank, 2007)

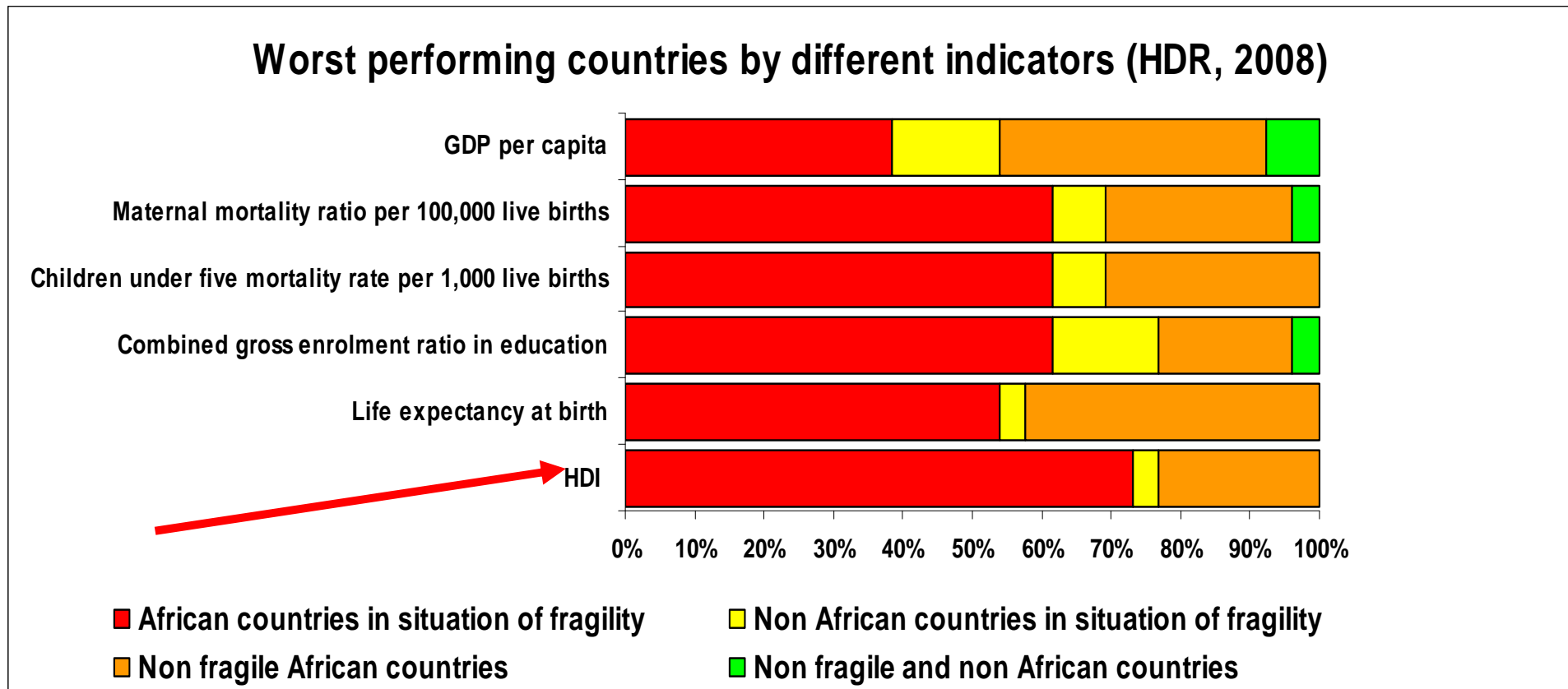
Some examples

Ivory Coast had a “relatively” low (vs SSA, 23%) incidence of extreme poverty in 2002; huge increase as an armed conflict broke out.

Cholera outbreak in Zimbabwe: death toll of more than 3,000 individuals in a few weeks; spreading in the area.

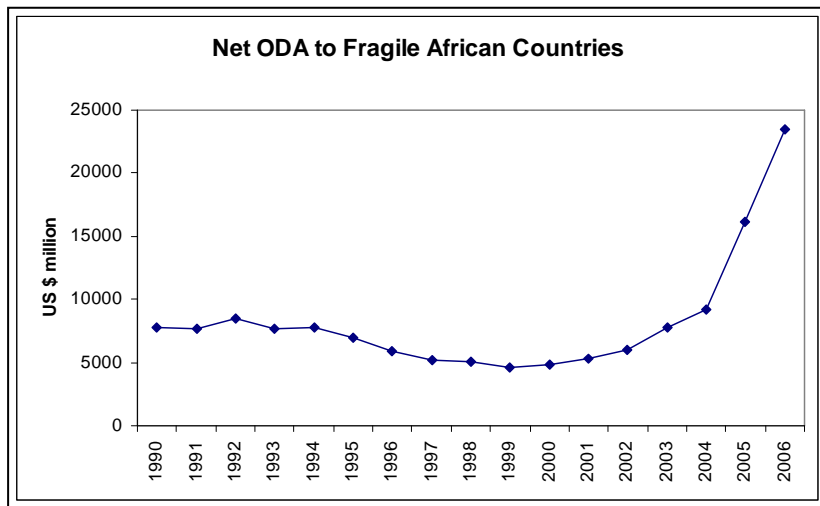
Life expectancy at birth in Central African Republic was 50 in 1990 and declined to 39 in 2005.

Considering the bottom quintile at the world level (different indicators), African fragile countries are “most of the worst”



Note: HDI Fragile countries are over 70%

Increased but fragmented aid flows



- Average number of donors very high: 24
- Large share of ODA in form of debt forgiveness and/or emergency aid (ST)

Risks of inapplicability of the Paris Declaration (weak governance makes it difficult to implement ownership)

Efficiency problems in the use of funds and, for some countries, risk of becoming “aid orphans” (especially during a crisis) (Zimbabwe drop)

Regional spillovers of fragility

Negative effects of fragility are not confined to fragile countries alone. Chauvet and Collier (2004) suggest that 2/3 of the costs of fragility are borne by other countries.

So called “bad neighbours” factor can slow progress towards the MDGs also in other countries.

Regional negative spillovers are not confined to economic growth alone: spread of diseases, diffusion of instability because of mass displacement of population. Women are often particularly affected.

Global spillovers of fragility

Negative spillovers of fragility could have a global outreach.

Fragile countries may be attractive as bases for terrorists, and pose additional threats (e.g. revival of piracy in the Gulf of Aden).

Fragile countries represent a threat to environmental conservation (Gorillas in Congo)

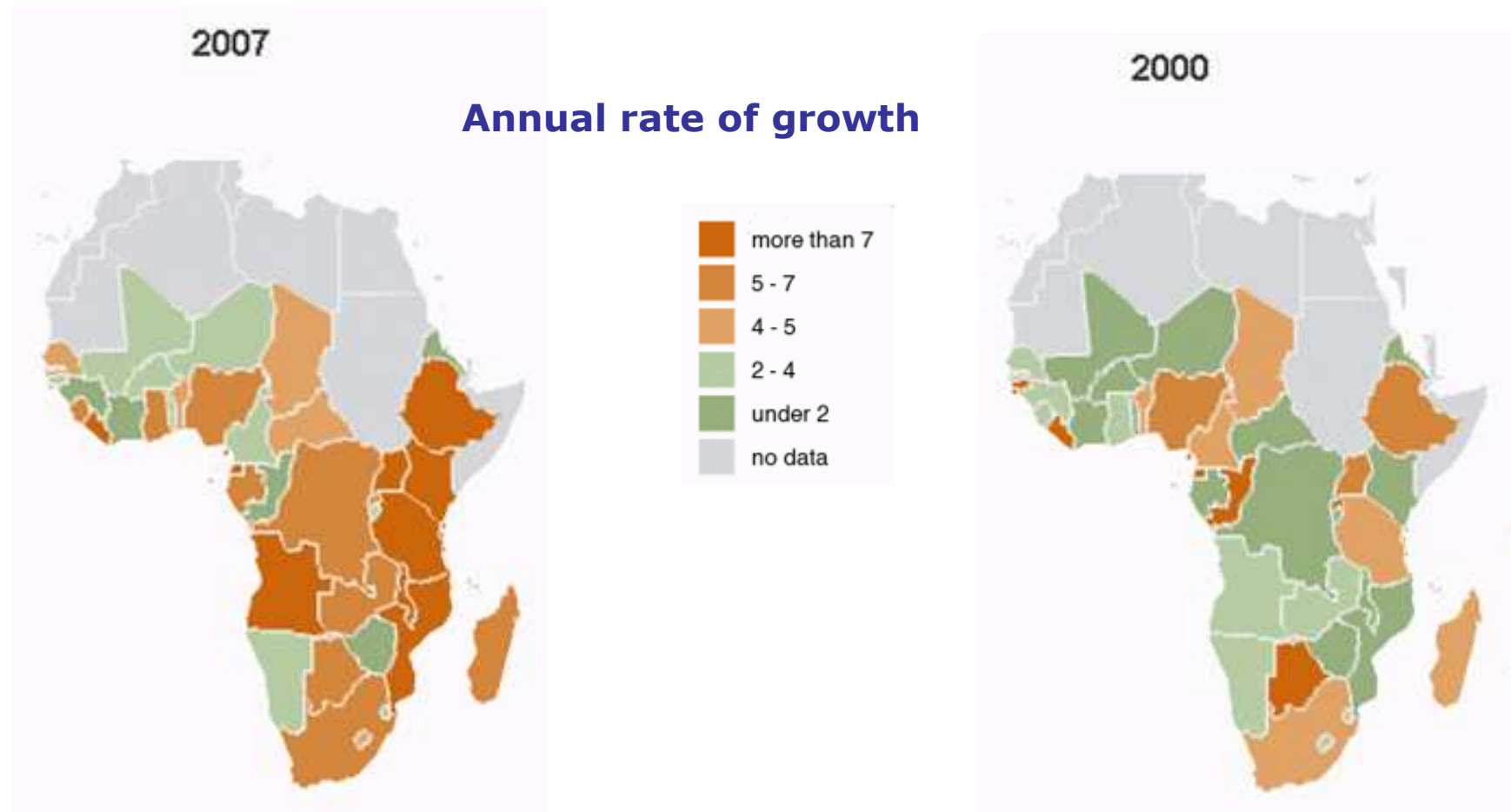
Relevance of fragility

Because of their lagging behind and because of the externalities, a successful development policy has to tackle the issue of fragility

Fragile countries need to rank high among the priorities of donor countries.

All the more so because of the exposure to recent external shocks.

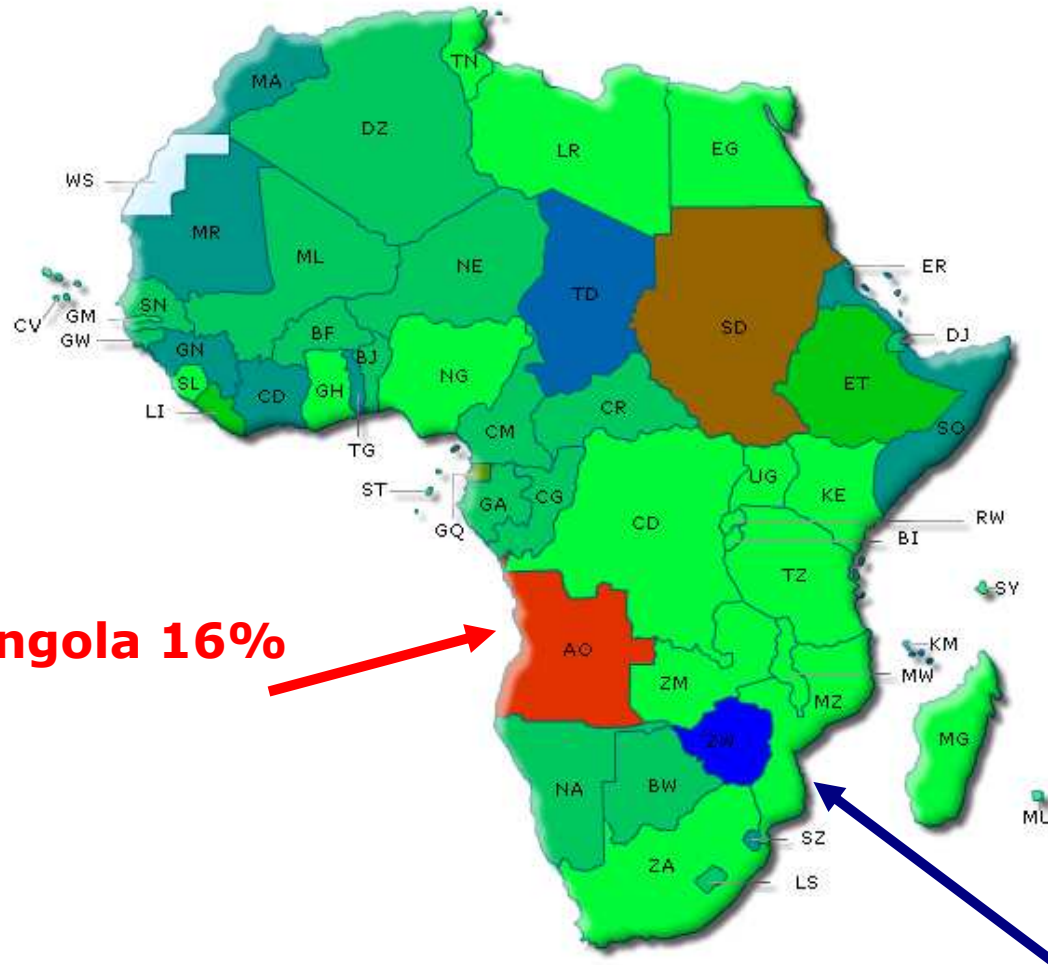
Before the current crisis, years of sustained growth



Source: IMF African Regional Outlook, 2008

...on average also in 2008

Estimated average rate of growth fragile countries 5.1% (increasing from 3.1); SSA 5.9% decreasing from 6.7)



Angola 16%

Individual countries develop very differently

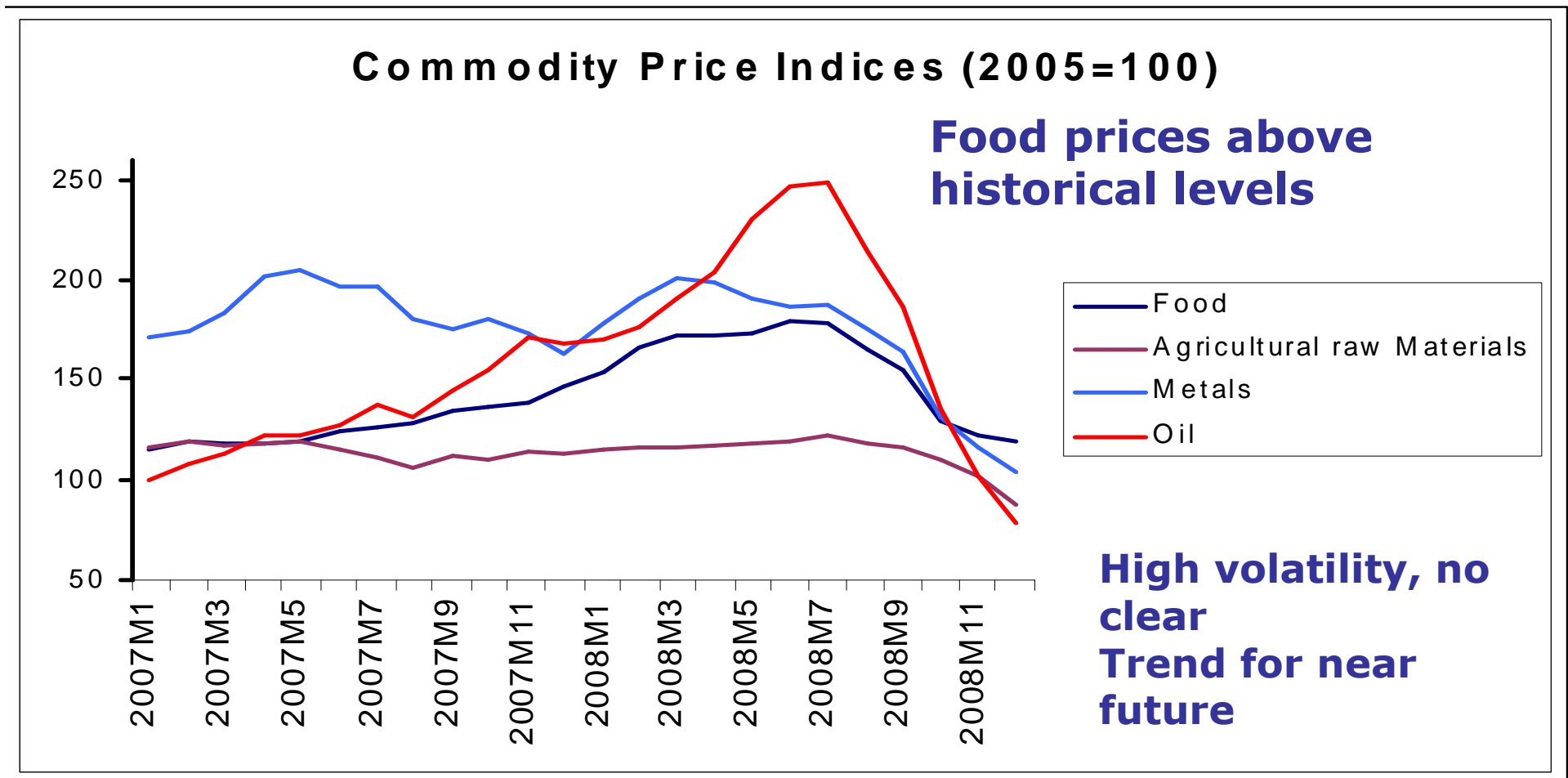
Zimbabwe: minus 6%

But fragile countries are extremely vulnerable to external shocks

11 countries (in our sample) have foreign reserves for less than 90 days

9 countries have a Current Account deficit in excess of 5% of GDP (Liberia over 100%, Burundi around 40%)

...up to June 2008 have been exposed to the double squeeze high food and oil prices



Food security concerns most fragile countries...

- Have been highly vulnerable to the recent global food crisis, are now in a “weak” position (because of a long period of high food and oil prices)
- African fragile countries are the absolute majority of the countries identified in the latest State of World Food Security (FAO, 2008) as being most at risk of **deteriorating food security**
- **18 out of 36 countries in food crisis requiring external assistance to FAO are African countries in situation of fragility**

(FAO Crop Prospects and Food Situation, February 2008)

Now the financial crisis

Risk has gone up worldwide

Fragile countries were already under stress because of food and oil price development

Countries in worse situations are the first to be hit in situation of uncertainty

Hence the initial perception that fragile countries were not exposed to the effects of the current financial crisis because not very integrated, was ill-founded.

Real effects can be substantial, though mostly indirect because of the limited financial depth and integration.

Channels of transmission of financial crisis:

- **Possible fall of export revenues (Role of China?)**
- **Worsening of terms of trade**
- **Depreciation of the exchange rates**
- **Decline in the (low) level of FDI**
- **Decline in migrants' remittances (issue of resilience).**
- **Possible decline in aid inflows (historical experience of Nordic countries after the early 1990s crisis)**

Responses to the financial crisis

In situation of crisis there could be opportunities

But to exploit them a country needs adequate Human capital and empowerment (e.g. Finland)

Fragile countries lack adequate Human Capital and empowerment (control of their own destiny) so that the current crisis is likely to worsen their situation

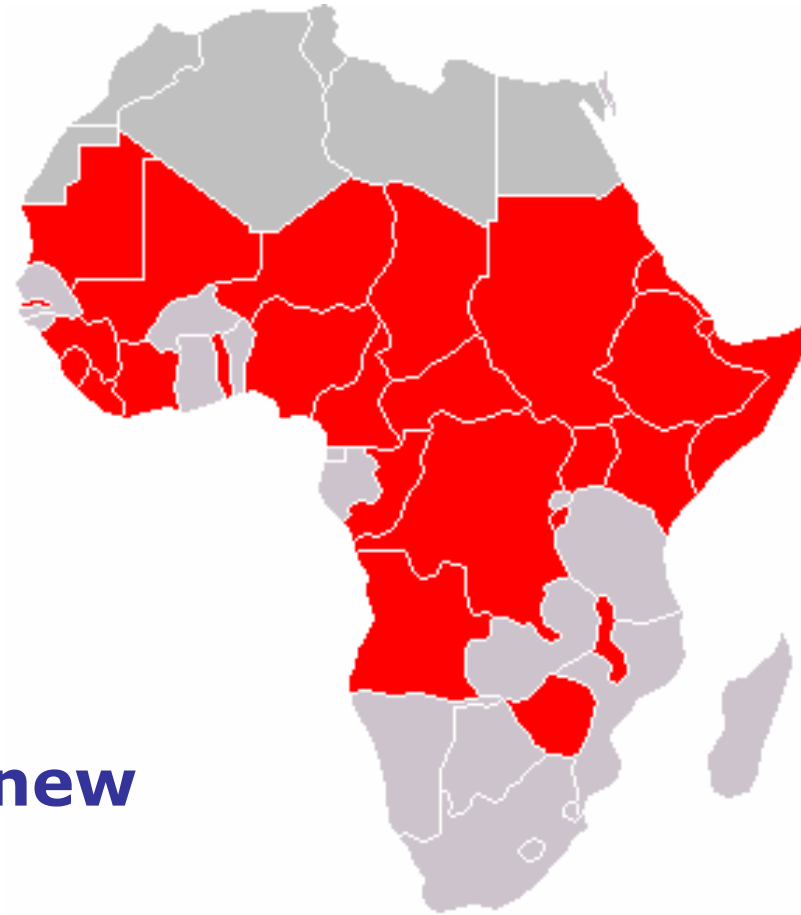
Development policy may/should help reverse this

Fragile but how vulnerable?

Classification of some countries as fragile is uncontroversial (e.g. Somalia, DRC, Zimbabwe)

...but there are significant uncertainties with respect to other countries (e.g. is Nigeria or Rwanda fragile?)

Also the picture could change because of the impact of the crisis (new countries "in"?)



Countries are heterogeneous...

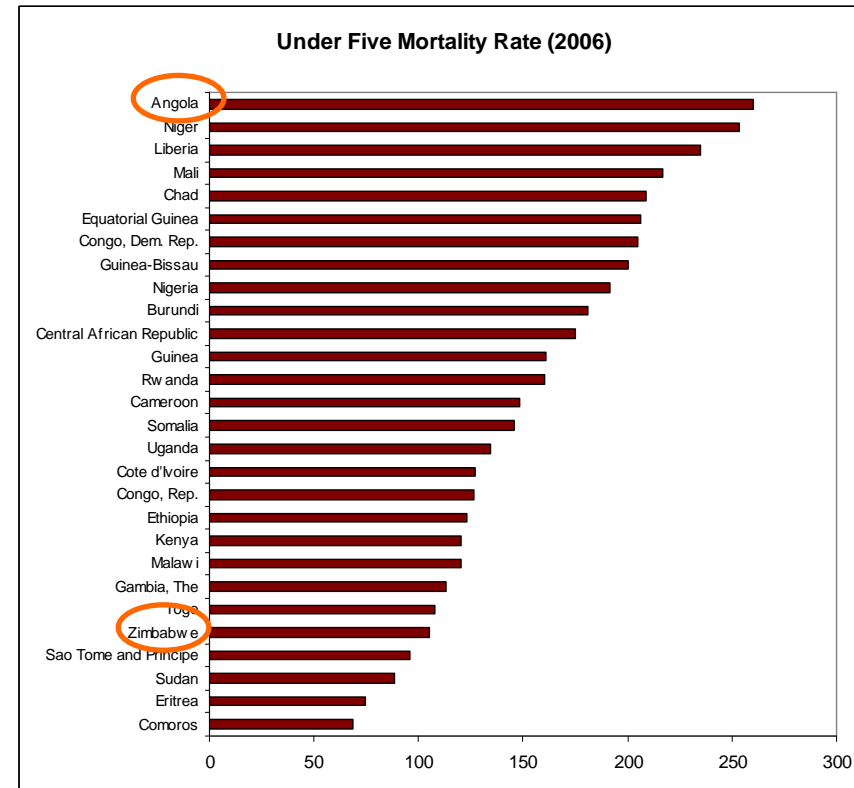
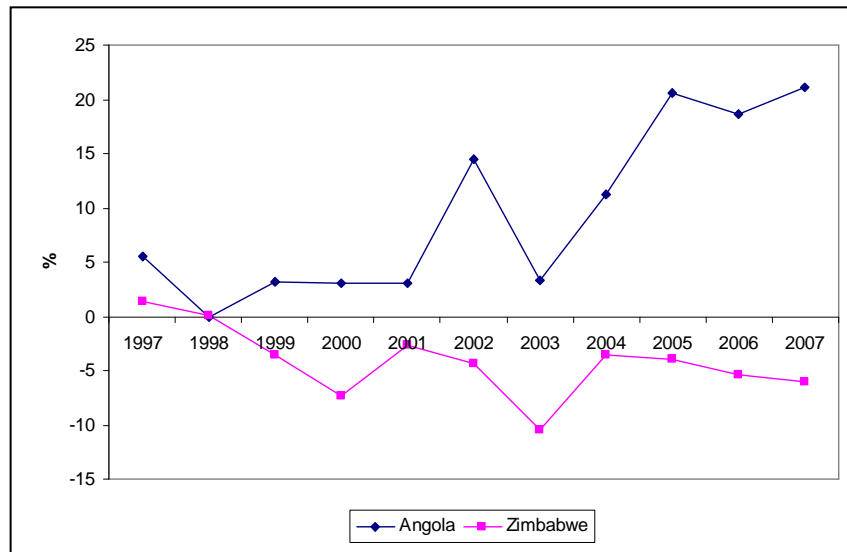
both with respect to key structural factors and to macroeconomic outcomes

	RESOURCE INTENSIVE				NON RESOURCE INTENSIVE	
	Oil		Non Oil		INTENSIVE	
	Angola	Chad	Cote d'Ivoire	Guinea	Uganda	Eritrea
GDPgrowth	Green	Yellow	Red	Red	Green	Red
Reserves	Green	Green	Red	Red	Green	Red
Terms of trade	Green	Red	Green	Red	Green	Red
Inflation	Red	Green	Green	Red	Yellow	Red
Current Account (% of GDP)	Green	Yellow	Green	Red	Green	Yellow
Export Concentration	Red	Red	Green	Red	Green	Green

	COASTAL			LANDLOCKED		
	Nigeria	Kenya	Togo	Congo, Dem. Rep.	Central African Republic	Zimbabwe
GDPgrowth	Yellow	Green	Green	Green	Yellow	Red
Reserves	Green	Red	Red	Red	Red	Red
Terms of trade	Green	Red	Green	Green	Red	Red
Inflation	Yellow	Red	Green	Red	Green	Red
Current Account (% of GDP)	Green	Yellow	Yellow	Yellow	Yellow	Green
Export Concentration	Red	Green	Green	Green	Yellow	Green

Fragility and heterogeneity

Angola and Zimbabwe - different rates of growth also over time



**12 zeros
dropped
yesterday!**

The Z\$500 million note issued in 2008

but higher infant mortality in Angola

Different natural resource endowments

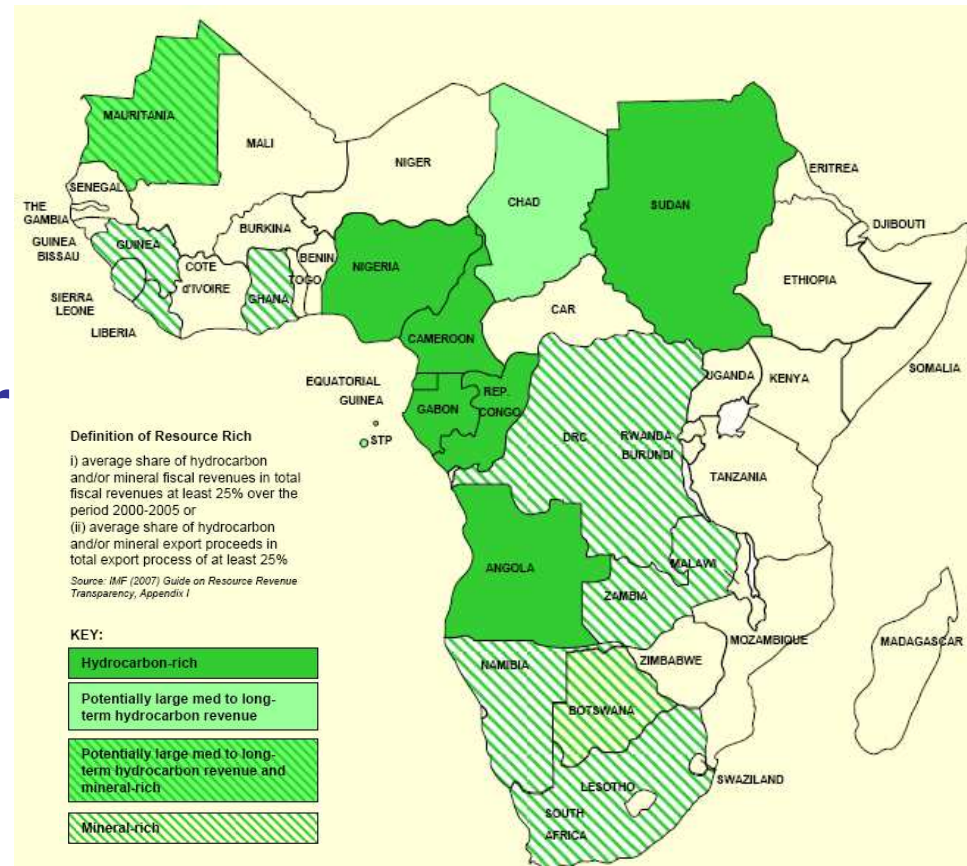
5 fragile countries are classified by the IMF as oil exporters.

4 have large endowments of non-oil natural resources.

Natural resources can constitute a driving factor of fragility.

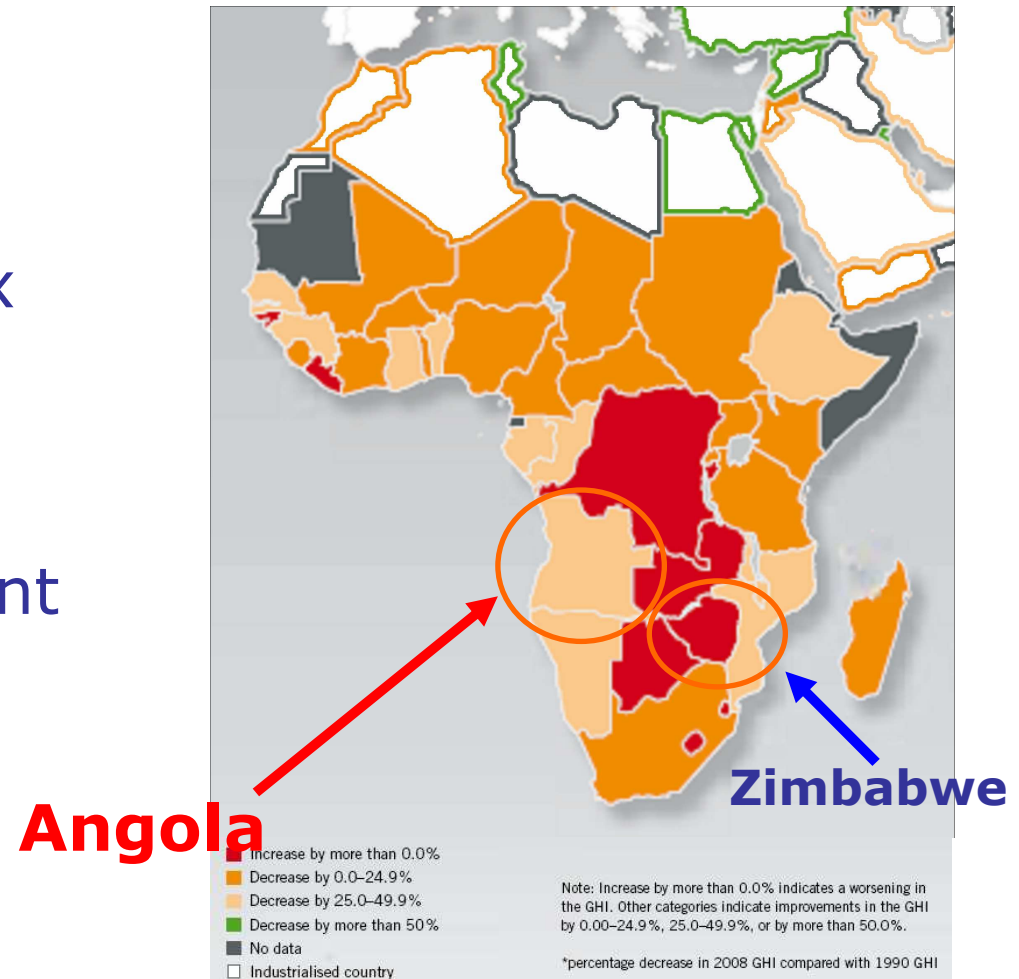
But fragility is also likely to emerge in countries which are resource-poor.

All of them lack human capital



Uneven progress in fighting hunger

Variation in IFPRI
Global Hunger Index
between 1990 and
2008:
Angola shows a
sensible improvement
while Zimbabwe
worsens



Food crisis interacts with other factors....

...and has different drivers (and therefore different extension and impact). The most affected seem to be countries in conflict/post-conflict situations

Post-conflict recovery period, conflict, IDPs, refugees	Civil strife	Adverse weather, drought, recent floods	Economic crisis, economic constraints	Localized crop failure and insecurity
Somalia Eritrea Sierra Leone Burundi Central African Republic Chad Congo, Rep. Liberia Guinea	Burundi Congo, Dem. Rep. Côte d'Ivoire Kenya Sudan Uganda	Somalia Zimbabwe Mauritania Kenya	Zimbabwe Eritrea	Ethiopia Guinea-Bissau

Source: FAO Crop Prospects and Food Situation, February 2008

Most fragile countries have/have had violent conflicts

With violent conflicts



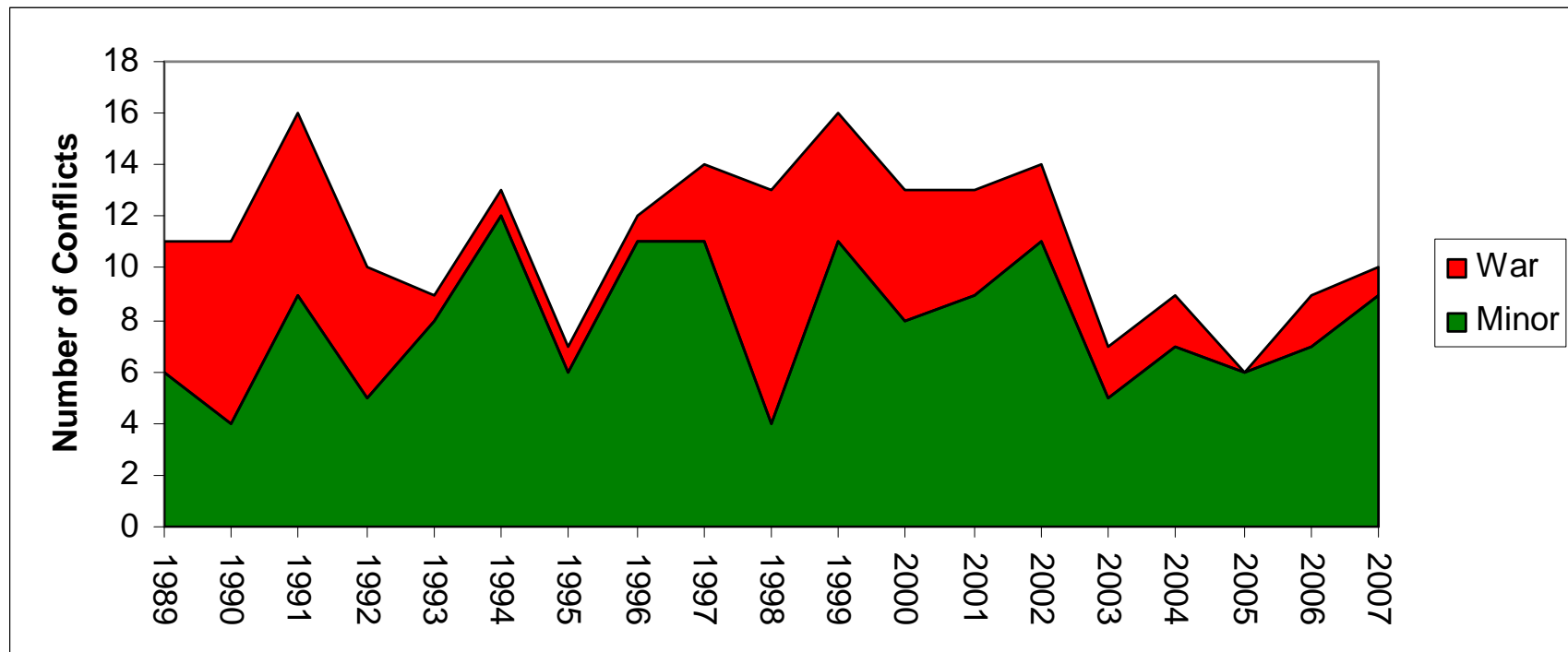
Reference group



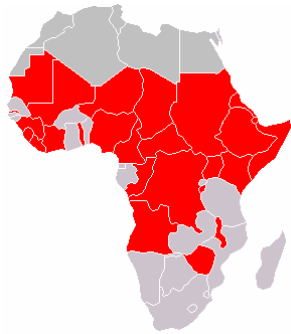
According to UCDP, most of countries in Southern Africa have experienced an armed conflict since 1989, but...

There is no clear time trend in number or intensity

Depending on the crisis the situation could worsen, even significantly



We need to move beyond the concept of fragility



All countries are fragile to the extent that their ability to use aid differs. Some are simply more fragile than others (WIDER, 2008)

How?

We unpack the concept of fragility, and we re-group fragile countries according to the underlying causes of fragility.

We develop a dynamic and operation-oriented taxonomy.

We need to have a solid understanding of root causes and driving factors of fragility.

No “one size fits all” policy

Maxwell (2005)

“many have questioned how sensible it is to talk of Africa as a whole, rather than about individual countries, or even regions within them”

- To think about Africa as a whole is a mistake, just as it is to think about fragile countries as a group
- Policies conditioning on fragility are likely to be ineffective
- Policies targeted at solving a single aspect (hunger, conflict etc.) are likely to be ineffective
- Most agencies tend to focus on one factor (e.g. FAO, food) because it is simpler and within institutional duties

but a “portfolio” of policies

- **We emphasize the existing complementarities, linkages and feedbacks between different causes**
- **A successful development policy has to account for all (most) of them**
- **Because of heterogeneity, “one size fits all” policy does not work. We need a “portfolio”, even if countries in situation of fragility have some common elements: low HK, “bad” governments, no empowerment**

Two different approaches

The first: case studies

But, time constraints are binding

We carry out a review of existing case studies, to identify failures and success stories (in connection with the AERC, etc.).

We need a close connection with European national development agencies, to learn from in-the-field engagement.

The second: regional integration

Regional integration might be a perspective for African countries in situation of fragility, although so far has not been very successful in Africa.

Some Questions

- **Can we draw lessons from the post-WW2 process of European integration and from the recent Eastern enlargement to include countries with different institutions?**
- **Can some features of European integration be replicated in the African context? Which country, if any, could be the “leader”?**
- **How can the EU contribute to the provision of adequate incentives for integration? Does the increased engagement of non-DAC donors condition EU chances?**
- **Can we learn from experiences (and mistakes) in South America and North Africa?**

Conclusion: Causes and drivers of fragility

Historical/past factors (post conflict, post-crisis colonial legacy, etc)

Poverty, inequality, HR violations, high youth unemployment, social exclusion and discrimination

Institutional weaknesses

- Competition for scarce resources (demographic explosion, climate change, resource mismanagement etc)
- Exploitation of abundant resources become feasible and convenient

Conflicts

- Food market shocks
- Financial/economic downturn at global/regional level
- Other macroeconomic shocks
- Externalities from neighbouring countries, transnational forces/dynamics, grievances associated with horizontal inequality at global level

External shocks

Conclusions

- **Countries in situation of fragility are characterized by “weak” institutional framework, lack of adequate human capital, high dependence on aid**
- **more vulnerable to external shocks**
- **More than others, suffer from lack of reputation (contracts are difficult to enforce, no clear counterpart)**

Their responses to shocks are different, depending on specific causes of “fragility”. Very little exists on approaches for specific environment

Conclusion

Heterogeneity implies that policies have to account for specific factors and cannot be just “intervention at the moment of a crisis”; they should be put into perspective (M to L-run)

While we have to consider a LR framework, we cannot postpone acting (e.g. now it could be waiting after solution of the financial crisis). Situation would worsen substantially if we did.