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On the use of country classifications in making strategic decisions

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Outline

1. Strategic choices in aid allocation
2. MICs and poverty
3. Economic growth as exit strategy
4. Internal redistribution as exit strategy
5. Poverty as a public goods deficit
6. Aid and fragile states
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1. Strategic choices in aid allocation

- Strategic choices that donors face include:
  1. selection of ODA recipient countries
  2. allocation of ODA across recipient countries
  3. sectors/topics of intervention
  4. aid modalities
  5. aid delivery channels
- Choices made will obviously depend on the objectives pursued by the donor
- But they should also depend on the characteristics of recipient countries
  - this suggests there is no one-size-fits all strategy that applies to all recipient countries
  - the Paris Declaration does not provide many pointers for such a differentiated country approach
- Are country classifications useful in setting strategies?

Important country classifications

- Donors use several classifications
  - income per capita (e.g. LIC, MIC, HIC)
  - non-income per capita levels of material well-being
  - public sector capacity
  - government willingness
  - size,…
- Emphasis in this session is on fragility
- But fragility cuts across the other classifications
- By way of introduction, we look into the recent debate on MICs, and how some of the arguments impinge on fragility issues

2. MICs and poverty

- If poverty alleviation is the overarching objective, then aid should go to countries where the poor live
- This is often interpreted as selecting the poorest countries
  - see e.g. DAC donor profiles
- This position is presently being challenged
- There are two questions underlying this debate:
  - where do the poor live
  - why are they poor and how can aid help

Where do the poor live (Sumner 2010) ?

		1988-1990	2007-2008
MICs	Total	**7%**	**72%**
	FACS (Fragile and Conflict Affected - OECD)		11%
	Non-FCAS		61%
LICs	Total	**93%**	**28%**
	FCAS		12%
	Non-FCAS		16%
FCAS			23%
SSA		13%	27%

Where do the poor live (Sumner 2010) ?

	LIC/MIC	Fragile	Number of Poor (mln, 2007-08)
India	MIC	NO	456
China	MIC	NO	208
Nigeria	MIC	YES	89
Bangladesh	LIC	NO	76
Indonesia	MIC	NO	66
DRC	LIC	YES	36
Pakistan	MIC	YES	35
Tanzania	LIC	NO	30
Ethiopia	LIC	YES	29
Philippines	MIC	NO	20

An alternative Bottom Billion ?

- Collier (2008) definition of the Bottom Billion
  - poor living in low-income countries without any prospects for escaping poverty within one generation
- The argument against Collier runs as follows:
  - the LIC-MIC distinction has become misleading for locating the poor
  - donors should thus target the poor, not poor countries
- In addition, aiding the poor in MICs is often cost-effective
  - more effective aid absorption by state apparatus
  - more public goods available for the poor to consume as they rise out of poverty (Kanbur)

3. Economic growth as an exit strategy

- But there are also strong arguments in favour of Collier
- First, it can be argued that the poor in most MICs have a more powerful route out of poverty: economic growth
- And this exit is highly successful
  - Chandy and Gertz (2011) estimate that the number of poor in MICs is expected to fall at an average rate of 11% a year between 2005 and 2015, compared with 3.4% for LICs
  - Shafik (2010) claims that share of world poor in SSA will go up from 13% in 1990, to 27% today, up to 50% within 20 years
  - Chandy and Gertz (2011) estimate that by 2015 DRC will contain third largest number of poor in world, after Nigeria and India

4. Internal redistribution as an exit strategy

- Another argument for targeting countries is that more aid should go to where internal redistribution is not an option (LICs)
- Average personal consumption per capita per day (based on National Accounts 2009, PPP, WB classification) in selected Belgian partner countries:
  - DRC: $0.60
  - Burundi: $0.80
  - Tanzania: $2.31
  - Rwanda: $2.51
  - Vietnam: $5.04
  - Peru: $14.24
  - South Africa: $16.52

5. Poverty as a public goods deficit

- A third argument for targeting countries is that the major reason people remain trapped in long-term poverty is the underprovision of public (and collective) goods
  - security, civil rights, education, health, infrastructure, access to water and fuel, storage and marketing services, appropriate finance,…
- States that fail to provide public (and collective) goods also fail to promote economic growth

6. Aid and fragile states

- Collier’s Bottom Billion: 1 billion people living in 58 countries falling behind and often falling apart
- Of the four poverty traps that Collier enumerates, three are worsened by state fragility:
  - conflict
  - natural resources curse
  - landlocked
  - bad governance

7. Conclusion

- Country categories and classifications matter hugely
- Avoid looking at just one distinction: all of them matter
- Beware of dichotomies: underlying reality is continuous in nature
- Degree of state fragility should constitute a crucial factor in donor strategic choices

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Thank you

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