

PREDICTABLE AID FROM G-20 COUNTRIES CAN REDUCE CONFLICT IN THE DEVELOPING WORLD

ANIRBAN GHOSH, RAJ DESAI AND HOMI KHARAS

The Issue

In the Pittsburgh G-20 communiqué from September 2009, the G-20 leaders launched a framework for strong, sustainable and balanced growth. Building on this framework, the G-20 leaders plan to discuss development issues at the Summit in Seoul.

Leaders should recognize that as the global economy recovers from the financial crisis of 2008, fragility and conflict remain the primary detriments to sustainable growth in many developing countries. Conflict is still prevalent in the developing world and its effect on economic growth, including the destruction of both human capital and infrastructure, are well understood. In 2008, there were 35 separate instances of armed conflict. Thirty-eight countries were considered “critical” in terms of their vulnerability to collapse or conflict in the Failed State Index of 2009.

Policy Considerations

A recent study on the causes of [violent armed conflict](#)

in developing countries finds that aid shocks, defined as large drops in foreign aid, increase the likelihood of armed conflict. When a recipient nation experiences an unexpected lowering of foreign aid, its government is weakened by forced cutbacks of popular programs and/or destabilized by large budget deficits. The study found that this encouraged conflict.

If negative aid shocks cause conflict, are there policies that can reduce these shocks thereby reducing the risk of conflict? Probably yes. We have looked at the [determinants of aid volatility](#) and find that donor behavior and relationships explain a significant fraction of volatility, although global shocks (like commodity price fluctuations) and domestic shocks (like elections) also contribute.

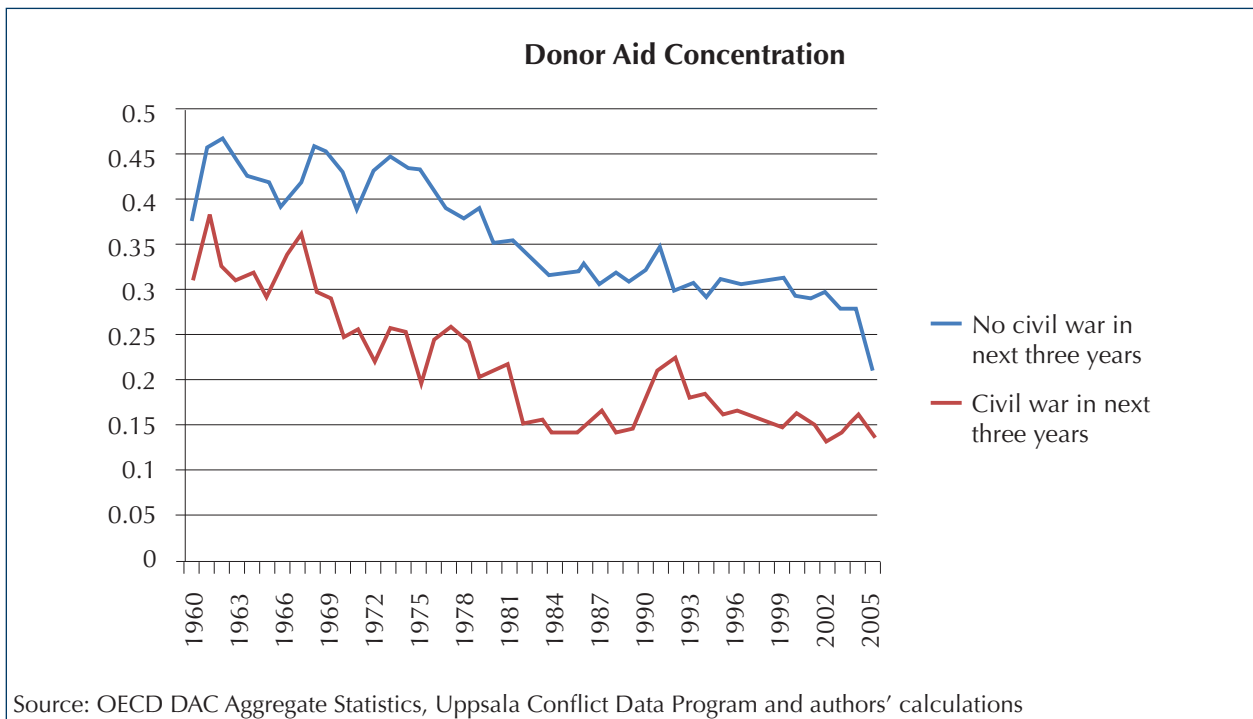
We find that recipient countries that have aid patrons are more likely to be protected from sudden aid shortfalls than those who get aid from multiple donors. If a recipient nation has one or two main donors, or patrons, then aid is concentrated in do-

nors who are invested in the success of the particular recipient country and who are less likely to impose negative shocks in aid flows. Furthermore, once a donor maintains a significant presence in a country, it can develop an understanding of local conditions and politics, and tailor its aid to generate economies of scale and better development results. It can take on the hard, long-term work of building capacity in the recipient country so as to enhance the legitimacy of the government and delivery of public services, which are two essential ingredients of state-building and conflict-prevention.

If this theory is correct, we should expect countries with greater donor aid concentration to have lower probability of sudden drops in aid, and hence lower incidences of armed conflict. In the chart below, we show the average donor aid concentration of two groups of countries, those that had a civil conflict in

the subsequent three years, and those that did not have a civil conflict in the subsequent three years. Looking at data from 1960 through 2005, we see strong evidence in support of our hypothesis. In every year for the 45-year period, countries that actually had a conflict in the following three years had a lower donor aid concentration than those that avoided conflict.

But the chart also shows some worrying trends. Aid concentration is getting lower, not higher, over time, suggesting that there is an ever-greater risk of aid shortfalls and hence conflict in the future. This is consistent with overall trends in aid toward a more fragmented global system with little aggregate consistency among donors. Many donors are spread thin over many countries with little effort to improve the global division of labor.



Action Items for the G-20

The G-20 Summit in Seoul is an excellent opportunity for the leaders of the main donor countries to discuss the causes of fragility and conflict in developing countries and to take preventive measures to maintain stability. Modernizing aid practices and improving aid effectiveness by making aid more predictable and less volatile is a good place to start. The United States is already moving in this direction. On September 22, President Obama announced the creation of a new U.S. foreign aid policy, which promises to focus on results rather than processes. The most im-

portant “result” from development assistance in the 38 vulnerable countries in the world would be maintenance of peace and stability. Leaders should discuss how the principles for engagement in fragile states and situations, developed by the OECD Development Assistance Committee, are working in practice. They should also review the findings of the *International Dialogue on Peacebuilding and Statebuilding* and commit to implementing these guidelines and principles in their own aid agency efforts. This can be the most cost effective way of reducing conflict in poor countries and setting the foundations for strong, sustainable growth around the world.