

# Foreign Aid to Countries in Conflict

ECA Talk by Bill Easterly

Comment by Marcello Estevão

# The aid-conflict linkage as seen in the World Bank in early 2000s

- [Collier-Hoeffler 1](#): Aid reduces conflict risk, but effect is indirect, via growth / policies complementarity
- [Collier-Hoeffler 2](#): Aid to post-conflict countries is frontloaded – out of alignment with absorption capacity – and not optimally allocated across sectors (should be more directly focused on poverty reduction)
- This was part of a broader agenda at the time which informed IDA methodology, categorization of Low-Income Countries Under Stress (LICUS).

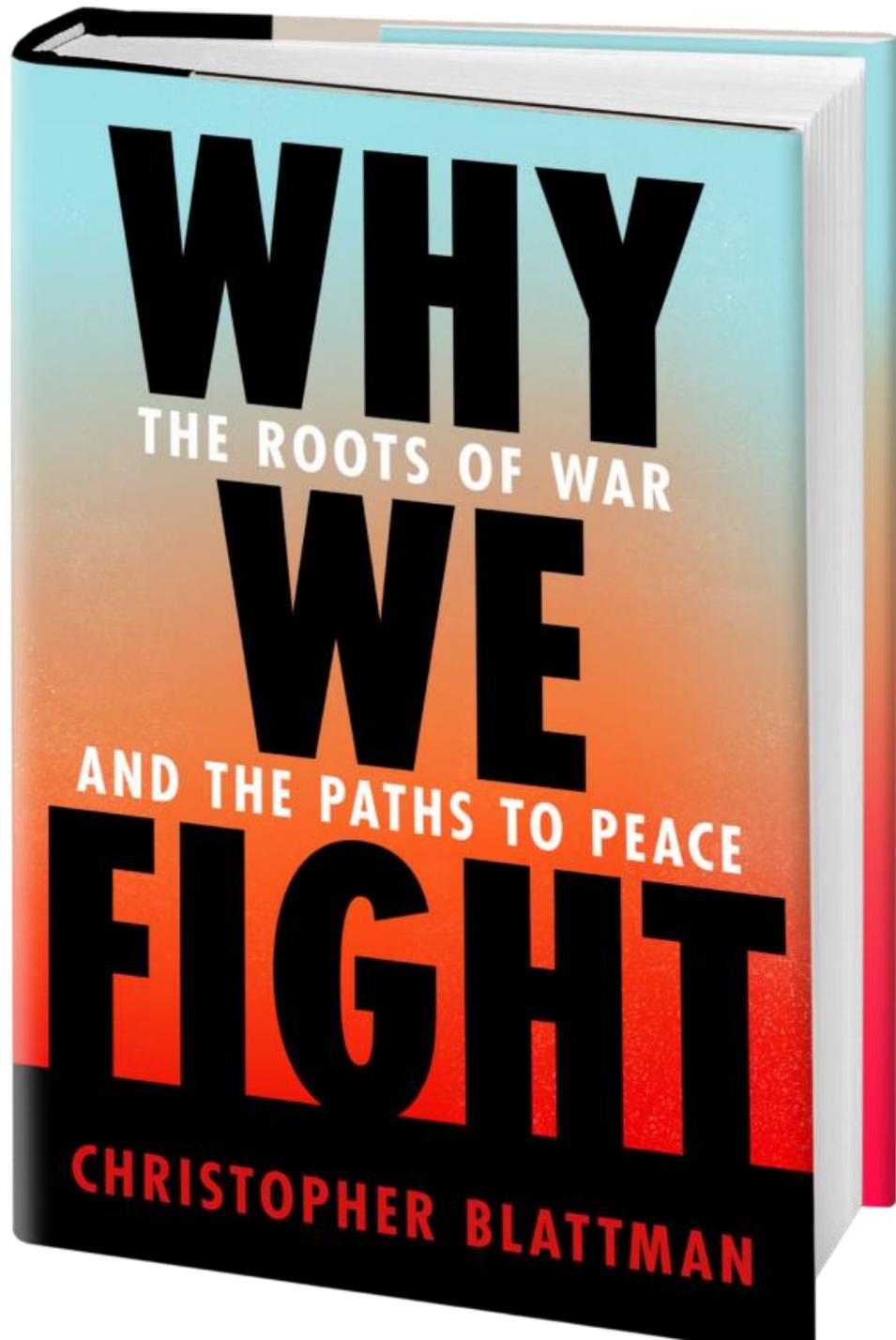
# Evolution of the aid-conflict linkage

- Some unresolved questions:

- Growth, policies, institutions are jointly determined – hence causal link from CPIA to growth and aid effectiveness may not be robust
- Is the negative correlation between GDP capita and conflict that existed in early 2000s a reflection of LIC civil war prevalence at that time?
- Conflict appears to be persistent / recurring – how to exit: External intervention? Justification for military intervention?

# A few subsequent milestones

- 2000s saw complex varieties of conflict: interstate (US-Afghanistan, US-Iraq), transnational violent extremism, MENA civil wars (and associated interventions), Libya spillovers to Sahel
- WDR 2011 emphasized non-linear paths, recurring cycles, emerging MIC “fragility”
- WDR 2017 focus on governance failures underlying conflict and importance of credible commitment (or lack thereof)
- Various operational and strategic initiatives by WB and IMF, but countries with high institutional and social fragility (per FCV list) still pose very challenging engagement (or no engagement at all)



## Current Debates

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- Chris Blattman: Much analysis of conflict (including at WB) is flawed by “selection on dependent variable” – begins from a sample dominated by conflict occurrence and works backwards to “causes”
- He argues we should instead begin from larger set of countries / situations and learn from the many that don’t end in conflict
- Leads to a focus on miscalculation and shrinking bargaining space (and so, aid matters to the extent it plays into these factors)

# Bill's findings

- “War on Terror” moved us very far from the Collier-Hoeffler world. Instead of recipients with “good” policies and poverty-reduction objective, shift to aid allocation criteria very poorly correlated with governance and growth
- Important to note that the current landscape of breakdowns in economic / political transitions seems to be much broader than War on Terror (“WoT”) countries: Ethiopia, Russia, Sri Lanka, Myanmar, South Sudan, Sudan (WoT “graduate”), Sahel.
- Military-driven aid surely didn't help, but there are other things going on – e.g. Blattman's book.

# How might non-military aid have actively worsened conflict?

- Prolonged unpopular / corrupt regimes (“our SOB”);
- Interaction with capital flight ([Andersen, Johannesen, Rijkers, 2020](#))
- Incentivized and fed conflict over resources – “greed” driven conflict
- Aggravated centralizing tendencies in unsuitable contexts (e.g. Afghanistan, Iraq)
- Worsened time consistency and moral hazard of incumbents / vested interests (“they can’t really cut us off”)
- Global fragmentation could worsen many of these problems even without a War on Terror.

# GAMBLING ON DEVELOPMENT

WHY SOME COUNTRIES WIN AND OTHERS LOSE



Returning to the overall debate on aid effectiveness

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- For many countries, we may be in the world of Stefan Dercon's book – it comes down to whether or not the elite is interested in development. Thus, aid only matters to the extent it is conditioned on elite's ownership of an effective development strategy.
- Where elite bargain is not favorable to development, aid should focus on stabilization.
- Bill has good suggestions for how to “condition” aid in weak governance contexts, but the focus might then shift to sustainability of such a model

# Things that are difficult for us to condition upon

- WB nervous about the religious aspect of transnational violent extremism; we may need to focus less on the mechanics of aid effectiveness and more on the motivations of Islamist movements – not our comfort zone.
- The line between state “capacity” and sovereignty – could there be a threshold below which statehood is not viable (the “scaffolding” collapses)? We avoid this question.
- The interplay between social capital and the strength of the state (Acemoglu-Robinson). It seems to matter a lot (e.g. Russia clearly underestimated social capital of Ukraine). Can social capital be accumulated? How to operationalize?