

Impact case study (REF3)

Institution: University of Oxford		
Unit of Assessment: 16 – Economics and Econometrics		
Title of case study: Shaping Development Aid Policy: A new economic approach to fragile states		
Period when the underpinning research was undertaken: 2015 - 2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Paul Collier	Professor of Economics and Public Policy	March 1998 - Present
Period when the claimed impact occurred: 2015 – 31 December 2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary of the impact (indicative maximum 100 words)		
<p>Professor Collier's research has reconceptualised state fragility and has been instrumental in shaping the public policy debate around aid and development policies concerning Fragile and Conflict-affected States (FCS), as well as the policies and actions of donor countries and intergovernmental organisations. Collier's research provided the impetus for the adoption by the International Monetary Fund (IMF), the World Bank and the International Finance Corporation (IFC) of entirely new and distinctive strategies for fragile states. This includes a new USD2,500,000,000 fund for the IFC and a new allocation of World Bank finance.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Collier's research re-conceptualised state fragility as a locally-stable but dysfunctional equilibrium. The analysis identifies six symptoms of fragility that are mutually reinforcing; trapping fragile states in a recurring cycle of poverty.</p> <ul style="list-style-type: none"> • <i>Fragmented oppositional identities:</i> society is fragmented into opposing groups with little or no shared identify [R1] • <i>Lack of state legitimacy:</i> Because the society is fractured into opposing groups, the state is typically regarded by parts of society as having been captured by one identity group, which undermines its legitimacy [R2] • <i>Lack of state capacity:</i> Because it lacks legitimacy with many of its citizens, the state cannot rely on citizens' compliance which means that basic functions of the state cannot be properly performed; further undermining the state's legitimacy • <i>Security threat from organised non-state violence:</i> fragile states lack the capacity and motivation to respond effectively the challenges to state authority; further undermining state legitimacy • <i>Undeveloped private sector:</i> The lack of state capacity to provide basic economic infrastructure and security discourages private sector investment [R6] • <i>Economy is exposed to shocks with little resilience:</i> A narrow economic base reduces resilience and state lacks capacity to provide protection. <p>Collier argues that at a more fundamental level, the proximate local stability of fragile states arises from an ergodic relationship between beliefs and outcomes. In conditions of fragility, people come to see their world as zero-sum and so do not see scope to cooperate; they see their world as unpredictable and so have short, opportunistic, horizons; and they see themselves as victims rather than having agency over their lives. But in aggregate, this behaviour generates stagnation, chaotic conditions, and links rewards to power imbalances rather than effort, validating the beliefs [R1].</p>		

Collier's analysis draws on two distinct literatures: the new political economy of states, exemplified by Besley-Persson (2011), and Identity Economics with its emphasis upon ideas transmitted in networks and held by groups. This synthesis, which applies both to poor countries and poor regions, was the subject of [R3] upon which the current European Commission invited Collier to give the opening keynote address at its inaugural conference on the economy in the 2020s (The European Commission Annual Research Conference, 15 November 2019, Brussels).

The key implication of this analysis is that since state fragility is a syndrome of reinforcing characteristics that entrap a society, it is mistaken to think that the solution lies in addressing a single 'root-cause'. Rather what is required is a step-by step process whereby the state develops checks and balances on those holding power, and builds a common sense of purpose [R3]. While recognising that transforming fragile societies is a generational process, there can be pivotal moments in which some exogenous event, such as a change of leadership, creates opportunities for actions that signal new intentions, resets citizens' expectations and builds trust [R4]. In the short-term, governments should look for 'quick wins': actions that result in visible and rapid improvements for citizens. Given the lack of state capacity, these quick wins may be only modest but successful delivery builds confidence.

From an economic perspective, Collier's analysis places the emphasis on economic governance rather than specific economic policies. Governments of fragile states should be supported to implement their own programmes subject to certain governance conditions. The focus of international policies should shift from the humanitarian agencies to the development finance institutions, and to support for private sector job creation through direct investment in pioneer firms. Building the private sector requires development assistance in the form of investment in infrastructure particularly in urban areas [R5, R6].

3. References to the research (indicative maximum of six references)

- R1.** Collier, P., (2016), 'The Cultural Foundations of Economic Failure: a Conceptual Toolkit', *Journal of Economic Behaviour & Organisation*, 126 (June), 5-24. <https://doi.org/10.1016/j.jebo.2015.10.017> [output type: D]
- R2.** Collier, P. (2017), 'Culture, Politics and Economic Development', *Annual Review of Political Science*, 20, 111-125. <https://doi.org/10.1146/annurev-polisci-051215-024720> [output type: D]
- R3.** Collier, P. (2018), *The Future of Capitalism: Facing the New Anxieties*. London: Allen Lane. ISBN: 978-0-06-274865-2 [output type: A – available on request]
- R4.** Collier, P., (2021) 'Transition Programs: A Theory of the Scaffolding Needed to Build out of Fragility,' in *Macroeconomic Policy in Fragile States*, ed. R. Espinoza, R. Chami and P. Montiel. Oxford: OUP. (Publication delayed as a result of COVID-19) [output type: C – available on request]
- R5.** Collier, P (2013), 'Aid as a catalyst for pioneer investment', *WIDER Working Paper 2013/004*. <https://www.wider.unu.edu/sites/default/files/wp2013-004.pdf> [output type: N]
- R6.** Collier, P., N. Gregory and A. Ragoussis (2020) 'Pioneering Firms in Fragile and Conflict-Affected States: Why and How Development Financial Institutions Should Support Them', *Journal of Accounting and Finance*, 20(3). <https://doi.org/10.33423/jaf.v20i3.3016> First published as World Bank Policy Research Working Paper, 8774, March 2019. [output type: D]

4. Details of the impact (indicative maximum 750 words)

Professor Collier's research has led to a major reappraisal of the causes of, and solutions to, persistent state fragility. His work has contributed to reshaping the strategic directions, policies and practises of major international agencies and financial organisations, shifting the focus from humanitarian agencies to development finance institutions and leading to major new funding initiatives.

Context: The Commission on State Fragility, Growth and Development

The catalyst for the impact was the creation of the Commission on State Fragility, Growth and Development. Launched in March 2017, the Commission was jointly chaired by former UK prime minister David Cameron, former president of the African Development Bank, Donald Kaberuka, and Adnan Khan (International Growth Centre / LSE), with Paul Collier and Tim Besley (LSE) as academic directors. Their objective was to draw on academic research and evidence from policymakers, academics, business leaders and other practitioners to arrive at a set of recommendations for national governments and international agencies to address the syndrome of fragile states. In April 2018, the Commission published its analysis and recommendations in its report, *Escaping the Fragility Trap*, co-authored by Collier, Besley and Khan [E1]. The report's analytical framework (pp 46-68) is a synthesis of research by Collier and others (including direct references to R1-3, R5). The Commission's main recommendations recognise that building stability in fragile states is a gradual process of developing effective institutions. Following Collier's research, the Commission recommends that international agencies focus on economic governance, not specific policies, and that aid be used to support the development of the private sector and to catalyse job creation [E1, p.12]. The report directly influenced FCS strategy within the IMF, the Development Finance Institutions, and the World Bank.

Impact on IMF

The *Escaping Fragility* report was launched at the IMF-World Bank Group Spring Meeting 2018 (Washington DC), coordinated with the IMF's Independent Evaluation Office (IEO) study on the *IMF and Fragile States*, which concluded that the 'IMF's approach to fragile member states seems conflicted and its impact falls short of what could be achieved' [E2]. The launch panel for the report included the then CEO of the World Bank, and now head of the IMF, who subsequently announced upon assuming leadership of the IMF that state fragility was to be one of her three priorities, and that the Fund should 'engage even-handedly with all countries experiencing more difficulties while giving ever closer attention to fragile and conflict-affected economies' [E2c]. Consequently, she continues to be closely involved with initiatives within the IMF to ensure staff are adequately trained to rise to the challenges posed by this agenda [E9].

The Deputy Director of the IMF's Strategy, Policy and Review Department observed that the 'institution has found it difficult to adapt its approach to engagement to respond fully effectively to the circumstances of FCS'. Hence, he explained, *Escaping the Fragility Trap* was a 'truly useful resource', and 'particular messages, such as the call to focus on economic governance, not policies, run counter to deeply-ingrained institutional practices that are not easily over-turned—but the spirit of the message (e.g. give governments space and options, requiring them to take ownership of their own policies) can still be infused into operational practices that differ fundamentally from the old ways of doing business. We are seeking to weave these themes into the formal guidance for FCS country teams that we are currently preparing' [E3].

Following publication of the *Escaping the Fragility Trap* report, Senior members of the IMF's Research Department, and Strategy and Policy Department, organised a workshop to consider new approaches and means of implementing its recommendations. The workshop, hosted by Collier in Oxford in December 2018, was developed into a book, with research by Collier providing a theoretical introduction to the policy analysis [R4]. Collier's contribution was described by the Deputy Director of the Policy and Strategy Department of the IMF as 'particularly valuable to Fund staff for its hard-headed assessment of the political economy of achieving transitions'. This assessment became the foundation for the creation of an IMF taskforce / working group on FCS [E3]. Collier remains involved in the ongoing mission and training of this taskforce, which has continued online throughout the pandemic, including online training to 250 IMF staff in November 2020 [E9].

Impact on Development Finance Institutions (DFIs)

The leading development finance institution is the International Finance Corporation (IFC), part of the World Bank Group. A key recommendation of Collier's research [R6] and of the *Escaping Fragility* report [E1] was that aid should be used by DFIs to initiate investment by firms in fragile states. Instead funds were flowing in the reverse direction: IFC's profits were being transferred to

the World Bank's aid program, the International Development Association, to be spent on public projects. [Text removed for publication] [E8].

Collier's recommendation that the focus of international policies should shift from the humanitarian agencies to DFIs [R6] was put into practice by the UK Government in July 2015 when the UK Secretary of State for International Development approved the business case for a GBP735,000,000 recapitalisation of Britain's DFI, the CDC Group, by the Department for International Development (DFID) for use in fragile states. Collier's role in advising DFID in this matter was highlighted by Sir Mark Lowcock, then permanent secretary at DFID, when he was called upon to give evidence at the public bill committee hearings established to scrutinise the recapitalisation proposal [E6]. Additionally, Collier was the only academic witness called upon to give evidence to the public bill committee in the lead up to the parliamentary hearings of the Commonwealth Development Corporation Bill, which resulted in the passing of the Commonwealth Development Corporation Act 2017. This Act further increased the limit of government funding for CDC Group from GBP1,500,000,000 to GBP6,000,000,000 [E7].

These changes within IFC and CDC Group were complemented by efforts to coordinate policy among DFIs internationally. Until this point, a forum for DFIs did not exist and so the potential to formulate a common strategy was lacking. The IFC and CDC Group (the two foremost DFIs) convened a conference for DFIs, entitled 'Private Investment in Fragile Environments', at the University of Oxford's Blavatnik School of Government in February 2019. This event provided a forum for DFIs to discuss how to take forward the recommendations contained in the *Escaping Fragility* report. The event attracted 27 DFIs and was so productive that the participants requested that this become an annual event. In February 2020 the forum attracted 33 DFIs, at a more senior level, and it was agreed to create a series of transformational pilot programmes, in Madagascar, Ethiopia, Democratic Republic of Congo and Sierra Leone, to increase effective collaboration between DFIs in selected countries [E11]. This has been impeded by COVID, but a report on these pilot schemes is planned for February 2021.

Impact on the World Bank Group

The Senior Director within the World Bank's new Fragility, Conflict, Violence (FCV) and Forced Displacement Division asked Collier to host their first consultation workshop on strategy at the Blavatnik School in February 2019, and Collier subsequently addressed their first FCV conference in Washington [text removed for publication] [E4, E5].

Ongoing impact: The Legacy of the Commission

The mission started by the Commission on State Fragility, '*to work with national, regional and international actors to catalyse new thinking, develop more effective approaches to addressing state fragility, and support collaborative efforts to take emerging consensus into practice*' is continued in the Reducing State Fragilities initiative domiciled at the International Growth Centre (IGC). The IGC is a Foreign, Commonwealth and Development Office funded research cooperation between LSE and the University of Oxford which Collier co-directs. Leadership of the Reducing State Fragilities initiative takes the form of the Council on State Fragility, inaugurated April 2020, based at the Blavatnik School, and is co-chaired by David Cameron, Donald Kaberuka (former President of the African Development Bank), and Ellen Johnson-Sirleaf (former President of Liberia), and includes a number of world leaders from the public and private sectors and Professor Collier [E10].

5. Sources to corroborate the impact (indicative maximum of 10 references)

E1. LSE-Oxford Commission on State Fragility, Growth and Development (2018) 'Escaping the Fragility Trap' - <https://www.theigc.org/publication/escaping-fragility-trap/>

E2. The International Monetary Fund (IMF):

- a) Independent Evaluation Office (IEO) of the IMF, 2018 report (p.1) - <https://ieo.imf.org/en/our-work/Evaluations/Completed/2018-0403-the-imf-and-fragile-states>.

- b) The IMF – Implementation Plan in response to the board-endorsed recommendations for the IEO evaluation report - <file:///connect.ox.ac.uk/GLOBAL/Home-2/admn4771/Downloads/MIP-100418.pdf>
- c) IMF Press Release no.19/352, 'Statement by Kristalina Georgieva on her selection as IMF Managing Director' (Sept 2019)
<https://www.imf.org/en/News/Articles/2019/09/25/pr19352-statement-by-kristalina-georgieva-on-her-selection-as-imf-managing-director>

E3. Letter from the Deputy Director, Strategy, Policy and Review Department, IMF.

E4. Factual Statement from the Senior Director within the World Bank's Fragility, Conflict, Violence and Forced Displacement Division.

E5. World Bank Group Strategy for Fragility, Conflict, and Violence - <http://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pdf> pp.ix, 11, 17, 25, 29, 32, 34-5, 45, 49-50, 53-4, 63, 70, 73.

E6. House of Commons Committee of Public Accounts fifty-fourth report of session 2016-17 – Department for International Development: investing through CDC. (Q66-71)
<https://publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/956/956.pdf>

E7. HoC Commonwealth Development Corporation Bill (First Sitting, Dec 2016)

E8. Thank you letter from the outgoing CEO of the IFC to Sir Paul Collier (July 2020).

E9. Deputy Director, Policy and Strategy Department, IMF may be contacted to corroborate the impacts described.

E10. IGC – Reducing State Fragilities website - <https://www.theigc.org/research-themes/state/reducing-state-fragilities/>

E11. African Development Bank Group – Press release - <https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-joins-other-development-finance-institutions-deepen-private-investment-fragile-states-34310>