



Bottom Billion: Effectiveness Summary

Summary

Paul Collier is director of the Centre for the Study of African Economies at Oxford University and formerly of the World Bank. His book “The Bottom Billion”, released in April 2007, seeks to answer ‘Why the poorest countries are failing and what can be done about it?’

Main Points

The book argues that countries in the ‘bottom-billion’ suffer from having fallen into one or more of four traps. These include traps of; conflict, natural resources, being landlocked with bad neighbours, and having bad governance in a small country. Collier’s list of countries is likely to include East Timor, Fiji, PNG, Solomon Islands, Laos, Cambodia and Burma – although he does not provide a list.

Collier says that the ‘bottom-billion’ have missed the economic boat. This is because Asia is doing so well at filling the market in rich countries for cheap goods there is no room in the market place for the uncompetitive labour intensive goods and services of the ‘bottom-billion’. This, he says, is unlikely to change until production costs in Asia rise significantly. Similarly, private capital is not flowing to these countries except to exploit their natural resources.

Collier is positive but cautious about whether aid can make a difference. He argues that aid has helped these countries, but mainly through keeping them in a holding pattern and preventing them from falling apart. He discusses how aid can assist countries that have begun to ‘turnaround’. He is not, however, of the view that more aid is better aid. He makes the point that in countries where aid reaches about 16 per cent of GDP it becomes less effective, due to issues of poor absorptive capacity.

The Role of Aid

Collier examines the relationship between aid and conflict. He finds evidence that aid can provide an incentive to coups, and suggests this is because coups are often over quickly allowing coup leaders to access aid resources when in government. In contrast, rebellions tend to be fuelled by natural resources – as these can be exploited at any time by rebel movements. Collier notes that the key risk factors to rebellions and coups are slow growth and low income and shows that in post-conflict situations, the security benefits alone are more than enough to justify a large aid program. Collier cautions that the mistake in recent times is that aid to post conflict situations has been too little too soon. Aid floods in early and then dries up. He argues that large aid flows need to be sustained during the first post-conflict decade.

Collier spends some time discussing how aid can assist countries that have begun to turnaround. He nominates three ways that aid can help turnarounds, incentives, skills and reinforcement. Collier supports governance conditionality, whereby extra aid is awarded to governments that meet criteria of attained levels of governance (ex-post conditionality). The criteria should be clear cut and the time scale for meeting these spelt out. He suggests that this kind of assistance could be targeted at those countries in the bottom billion, currently missing out on the majority of grant funds.

Collier spends some time discussing technical assistance. He makes the point that countries in the bottom-billion have generally lost the skills that the civil service once possessed. Reform needs skills and in the bottom billion the people with these skills have often migrated. He argues that capacity building cannot happen until the country has begun to reform. Training up people to become highly skilled in a country which is failing will just give them another opportunity to migrate. Hence it makes sense for a country to import skills temporarily while it gets over the hump of reform.

His research suggests that technical assistance in a failing state prior to turnaround has little effect on the possibility of turnaround happening. However the impact is dramatically different with turnaround or new leadership. Technical assistance during the first four years of reform, and especially during the first two years - has a big favourable effect on the chances that reforms will be maintained. Hence when a turnaround or political change happens donors should provide substantial technical assistance for a few years to help implement reform. Then, after a few years switch to providing funds for the government to spend. Collier notes that this is a high risk approach for aid agencies, but the payoff could be enormous. He describes it is a 'venture aid fund' approach. He notes that the World Bank has launched such a fund to support turnarounds.

Collier did some research into aid projects in failing states and found that they were much less likely to succeed. He then tried to determine if anything could be done about this and found that projects could be more successful with greater supervision by donors; however this implies higher administration costs. Collier argues that in fragile states this should be accepted by donors, otherwise incentives for donors to keep their administration costs down will drive them towards activities that are low risk but possibly not as effective.

Finally on aid, Collier spends some time on a model he calls 'independent service authorities'. The idea behind this is that in countries where basic public services are failing, the government, civil society and donors could try to build an alternative system for spending public money. The key features would be a high degree of scrutiny from civil society, competing channels for expenditure encompassing public, private, NGOs etc, and continuous evaluation to see which was working best. Government, donors and civil society would sit on the board of such an authority. Collier is clear that he supports the trial of these authorities only where there is no real prospect of the traditional system being made to work.

Other Solutions

Collier concludes that aid alone will not help the bottom billion countries escape the four traps. It can do nothing about the natural resource trap, in fact in some ways aid can mirror the problems associated with possessing a natural resources. Aid may help landlocked countries with improved transport infrastructure but cannot eliminate the problem of having bad neighbours. Collier suggests that there are several other ways to help countries in the bottom billion; first, through selective military intervention, second, through laws, statutes and charters for improved governance and third, via trade preferences.

On military intervention Collier suggests that it should commit for a significant period (a decade or so), be mandated to fight and take casualties, with prearranged obligations on the host country such as reducing the size of its military and training quality police forces. Collier is anti large military forces in bottom billion countries, arguing that they can act like a protection racket, extorting money from their governments under threat of coup.

On laws, statutes and charters for improved governance, Collier suggests a range of approaches. He wants Western governments to make the reporting of potentially corrupt deposits a requirement for banking, arguing that it is done for terrorism funds – so could also be done to address corruption. Enforcement of conventions such as that around bribery of foreign officials could also be strengthened. There could be charters for better governance in countries in the bottom billion; the Extractive Industries Transparency Initiative being is a good start. There could also be charters on democracy, budget transparency, post conflict situations and investment.

On trade, Collier suggests unrestricted access to the markets of high-income countries for labour intensive exports from the bottom billion. He argues that as this already happens to an extent – it could be broadened and a clear end-date for the preferential access agreed.

Summary prepared by Cate Rogers, ODE.