Brief Survey on fragility, conflict, aid effectiveness and aid in fragile countries[1]

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The recent literature on fragility, conflict and aid effectiveness is vast. Many well-known researchers have already provided extraordinary surveys on these topics. The purpose of this brief survey is simply to review the main papers related with the topics and policy recommendations addressed in the ERD 2009.
For this reason, for an extensive review of the literature on the topics we refer to the excellent, already complete surveys provided in the literature.

Fragility

The existing literature abounds with definitions of "fragility". Some papers have measured the costs of being fragile states (Akkaya et al. 2007 and Chauvet al al. 2007 on West Bank and Gaza closure regime; Brück & Schindler 2008 on the households of Serbia, Kosovo, Albania, Afghanistan, Rwanda and Vietnam; Dibeh 2008 on Somalia and Iraq; Kumar, Gang and Yun (2008) on Kosovo), whereas other studies have focused on the concept of fragility (OECD-DAC 2006, Boege et al 2008, Baliamoune-Lutz & McGillivray 2008).
For example, the DFID (2005: 7) defines 'fragile states' as "those countries where the government cannot or will not deliver core functions to the majority of their people, including the poor." As the report remarks, "there are wider reasons why we need to work better in fragile states. They are more likely to become unstable, to destabilise their neighbours, to create refugee flows, to spread disease and to be bases for terrorists (DFID 2005:5)."
Foreign Policy defines a failed state as "the loss of physical control of its territory or a monopoly on the legitimate use of force. Other attributes of state failure include the erosion of legitimate authority to make collective decisions, an inability to provide reasonable public services, and the inability to interact with other states as a full member of the international community" (Foreign Policy 2008).
The World Bank's classification of Low-Income Countries Under Stress (LICUS) considers 7 countries classified as "severe" fragile states and other 19 as "core" fragile states. An alternative classification is used for fragile state, that is those low income countries that have a World Bank CPIA[3] score of 3.0 or less (45 countries in 2005), used by the IDA's criteria of resource allocation, or those that belong to the bottom two quintiles of said index, as the OECD-DAC tend to use (35 countries called *Difficult Partnerships*).
But fragile states have been studied under a fuzzy-set theory (Baliamoune-Lutz & McGillivray 2008) to allow for gradual transition from one state or condition to another, and to incorporate rules and goals. The fuzzy-set approach allows to examine changes in country ranking depending on the degree of vagueness and the level at which performance changes from disastrous to average or good (depending on how the cut-off point is defined). The authors applied fuzzy transformations to the 2005 CPIA scores of 76 countries, and showed how fragile state classifications using the CPIA indicator were inherently ambiguous.

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[1] *The views expressed in this paper are those of the author, and should not be taken to be the views of the European Report on Development or of the European Commission DG Development.*

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[3] The Country Policy and Institutional Assessment (CPIA) rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. The score ranks among [1-6] interval, and is given by World Bank's staff that assess country policies and institutions by filling out a specific questionnaire.

Another definition of fragility is the one provided by the Canadian International Development Agency, CIFP (Country Indicators of Foreign Policy). Carment et al. (2008) provide a criticism of the construction of the CIFP index and they reconceptualise the meaning of state fragility with equal attention given to authority, legitimacy and capacity of sate (ALC).
The use of the label "fragile country" is highly contentious, and Collier (2007) does not disclose his own list of 58 fragile states because "this is not a company that countries are keen to be in, and because stigmatizing a country tends to create a self-fulfilling prophecy".
Engberg-Pedersen et al. (2008) conversely endorse a definition of "situation of fragility", defined as "institutional instability undermining the predictability, transparency and accountability of public decision-making processes and the provision of security and social services to the population".
The European Union, in its 2008 Donor Atlas, resorts to a similar concept, and groups some of recipient countries as being in a situation of fragility. Elsewhere, the concept of fragility is linked to the inability or – more controversially – to the unwillingness of governments to deliver services to their citizens.
USAID (2005:1) has differentiated between vulnerable states and states in crisis: "USAID is using *vulnerable* to refer to those states unable or unwilling to adequately assure the provision of security and basic services to significant portions of their populations and where the legitimacy of the government is in question. This includes states that are failing or recovering from crisis. USAID is using *crisis* to refer to those states where the central government does not exert effective control over its own territory or is unable or unwilling to assure the provision of vital services to significant parts of its territory, where legitimacy of the government is weak or nonexistent, and where violent conflict is a reality or a great risk".
In a recent report published by the Brookings Institution, Rice & Patrick (2008:8) define weak states as "countries lacking the capacity and/or will to foster an environment conducive to sustainable and equitable economic growth; to establish and maintain legitimate, transparent, and accountable political institutions; to secure their populations from violent conflict and to control their territory; and to meet the basic human needs of their population". This broad concept captures government responsibilities commonly considered core functions of statehood and integrates the three classic gaps in good governance: capacity, legitimacy and security. It also unifies the economic, political, security and social welfare components in a single index. This makes the index close to the human development notion.
In this sense, the role of the state is crucial in fragile state considerations. Ghani et al (2006 a, b) have set out ten core functions of state sovereignty: (1) legitimate monopoly on the means of violence; (2) administrative control; (3) management of public finances; (4) investment in human capital; (5) delineation of citizenship rights and duties; (6) provision of infrastructure services; (7) formation of the market; (8) management of the state's assets (including the environment, natural resources, and cultural assets); (9) international relations (including entering into international contracts and public borrowing); and (10) the rule of law. Following this wide concept of state, many types of states can be classed as 'fragile', for example, weak states, conflict areas, post-conflict environments and states that have a strong capacity but are unresponsive to the international community and the needs of their citizens. Fragile states are not necessarily conflict zones. Authoritarian governments (non democratic states) usually lead to fragile or failed states, but not always.

Thus, notwithstanding the definitional differences, there is some agreement on some basic points across the academic and policy literature. As Brinkerhoff (2007) argues:
"the category of fragile countries includes huge amounts of variation. While sharing general features of fragility, each country exhibits distinctive contextual characteristics and it is particularly important to recognize different constraints of capacity and political will, specific to each country. Fragile states are dynamic and move along trajectories from stability toward conflict, crisis, and/or failure; and emerge from crisis toward recovery and stability."
Overall, most definitions suggest that state fragility is directly related to a lack of institutional capacities. There is some consensus that fragile countries have governments characterized by authority, service entitlements and legitimacy failures (see for instance Stewart et al. 2009; Brinkerhoff, 2007). The concept of "fragility" is "broad", in the sense that it groups together countries that are difficult to compare (Faria and Magalhaes-Ferreira, 2007). Furthermore,

country classifications are not fully coincident, not only because they refer to different underlying definitions, but also because they are based on alternative multidimensional indicators with ambiguous and largely arbitrary thresholds that are used to label a country as fragile.

As the food crisis has shown, political and economic setbacks are closely related to security and development conditions, and these phenomena are not unique to the most failed or fragile states. Weak states are highly associated to uncertainty and their lack of resiliency to deal with external shocks. Globalization has made the close monitoring of weak states an obligation. Their internal conflict and societal degradation, their high poor headcount ratios are not only "state data", because all countries are affected. As Chauvet, Collier and Hoeffler (2007) have evidenced, neighbouring countries are closely affected by the costs of failing states. On average, countries neighbouring fragile states lose around 0.6% of growth per year, but if all the neighbours of the country are fragile states, the figure rises to 1.0% per year.

Although there are variations regarding which characteristics most contribute to fragility, there is a broad consensus on some of the most relevant factors.

Brinkerhoff (2007) and Vallings and Moreno-Torres (2005) point out that root causes of fragility include factors such as: past armed conflict, poor governance and political instability, militarization, an ethnically and socially heterogeneous and polarized population, weak or declining economic performance, demographic stress, low levels of human development, environmental stress, and "bad neighborhoods".

Vallings and Moreno-Torres (2005), however, conclude that weak institutions are the central instigator of state fragility. Countries whose political systems are in some form of transition or have weak democratic instances are at much higher risk of state failure and fragility (Goldstone et al., 2004).

Economic development has a significant impact on fragility, though less relevant than the strength of a country's institutions. A lack of economic growth, however, could imply that institution building is more difficult to achieve. Poverty, on the other hand, is recognized as a triggering factor of state failure and conflicts (Faria and Magalhaes-Ferreira, 2007). Other factors, including natural resource endowment and ethnicity, do not necessarily cause a situation of fragility but, as Vallings and Moreno-Torres (2005) suggest, the political manipulation of these factors can have an impact on state stability, with, once again, states with weak institutions having the higher chance of failure.

The circular nature of the various fragility factors is an important feature widely recognized by the literature and at the heart of the so-called "fragility trap" concept. Drivers of fragility are often self and mutually-reinforcing. For instance, corruption and poor public governance reduce state political legitimacy, the lack of which may in turn favor insurgency. Ethnic conflicts create insecurity and internally displaced populations, and disrupt economic activity. In turn, weak economic growth leads to few state resources to provide public goods and build up efficient administrative structures. Violent conflict is naturally an ultimate manifestation of state fragility. However, causality runs in both directions, as conflict is not just an outcome of fragility, but also represents a driving factor of fragility itself.

Conflict

As noted above, fragility is often connected to conflict, and it is therefore unsurprising that the so called Copenhagen Consensus identified instability, and conflict, as one of the ten key priorities for the development community. The panel of experts who gathered in Copenhagen in May 2004 suggested that "measures to reduce the number, duration or severity of civil war would stand very high in the ranking of priorities for development, if they could be expected with any confidence to succeed". Needless to say, the chances of success of any effort to reduce the severity of armed conflicts or to prevent their outbreak impinge on a proper understanding of their root causes and of their triggering factors. Even though there is little solid-grounded agreement as tothis key issue, income differences have received considerable attention.

The report on Investing in Development - Practical Plans to Achieve the Millennium Development Goals published by the UN Millennium Project in 2005 argues that "poor and hungry societies are much more likely than high-income societies to fall into conflict over scarce vital resources, such as watering holes and arable land […] poverty increases the risks of conflict through multiple paths". This understanding of the root causes of conflicts implies that "investing in development is especially important to reduce the probability of conflict". A similar message is contained in the World Bank (2003) report Breaking the Conflict trap: Civil war and development policy, where the core argument is that economic development has a pivotal role in reducing the incidence of civil war around the world.

These prescriptions have been basically driven by two influential policy papers, namely Collier and Hoeffler (2004) and Fearon and Laitin (2003). Collier and Hoeffler (2004) find that political and social variables that are most obviously related to grievances have little explanatory power with respect to the outbreak of a conflict. Conversely, economic variables, which could proxy some grievances but are more closely related to the viability of rebellion, have considerable explanatory power. Fearon and Laitin (2003) also find that lower per capita gross domestic product has a significant and negative effect on the onset of a civil war; they argue that the conditions that favor insurgency are the factors that explain which countries have been at risk of the outbreak of a civil war. These include the incidence of poverty, political instability, rough terrain and large population size; income per capita is their proxy for the "state's overall financial, administrative, police and military capabilities"; once a government is weak, rebels can reasonably expect a higher probability of success[4].

Though seemingly plausible and intuitive, the argument that poverty is the main cause of instability is based on weak empirical grounds, because of the possible endogeneity between economic conditions and conflict. Miguel et al. (2004) challenge the aforementioned results in a study of 41 African countries; they use rainfall as an instrument for economic growth, and find that exogenous economic shocks are strongly related to the outbreak of civil conflict. This suggests that it is sudden variations in per capita income which can explain why countries incur armed conflicts. Hence, we need to gain a better understanding of the determinants of civil conflicts in order to design effective prevention mechanisms.

Brückner and Ciccone (2007), also using a sample of 41 African economies, find that lower income growth makes civil war more likely in non-democracies. Instead of using rainfall as an instrument for economic growth, they use international commodity prices. Their results suggest that the interaction between bad institutions and economic shocks affects the probability of civil war.

However the analysis by Miguel et al. and Brücker and Ciccone is on shocks, changes of per capita income on conflict, not on the relationship between poverty (level) and civil war. Djankov and Reynal-Querol (2009) take another look at the relationship between poverty and civil war. They find that their correlation is spurious, and is accounted for by historical phenomena that jointly determine income evolution and conflict in the post-WWII era. In particular, the statistical association between poverty, as proxied by income per capita, and civil wars disappears once they include country fixed effects. Also, using cross-sectional data for 1960-2000, they find that once historical variables like European settler mortality rates, population density in the year 1500 and European settlement in 1900, are included in the civil war regressions, poverty does not have an effect on civil wars. These results are confirmed using longer time series for 1825 to 2000. The results are in line with Krueger and Malecková (2003), who provide evidence that any relationship between poverty and terrorism is indirect. Abadie (2006) also shows that terrorist risk is not significantly higher in poorer countries, once the effect of other country-specific characteristics, such as the level of political freedom, is taken into account.

These results can be consistent with Miguel et al. (2004). There, the authors find that sudden changes in income growth affect the probability of conflict. Miguel et al. (2004) analyze the effect of one component of income growth, transitory shocks caused by the change in rainfall. One can imagine a situation where a sudden (and exogenous) hit in consumption drives

[4] Hegre and Sambanis (2006) perform a sensitivity analysis of the specification for the onset of civil war using the variables typically included in the civil war literature.

people to violence. Once various such effects accumulate to increase or reduce the level of income, the effect on civil war seems to disappear. The relationship is similar to that between income and democracy, and economic growth and democracy. Acemoglu and Robinson (2001), for example, emphasize that regime changes that are more likely during recessionary periods because the costs of political turmoil, both to the rich and to the poor, are lower during such episodes[5]. This is analogous to the results of Miguel et al. However, Acemoglu and Robinson also find that "…, holding inequality and other parameters constant, rich countries are not more likely to be democratic than poor ones." This is analogous to the result in Djankov and Reynal-Querol (2009).

To date, very few and recent studies in economics link economic development, institutions and civil wars. Hegre at al. 2001 APSR and others find that democratic and authoritarian states have few civil wars, and intermediate regimes are the most conflict-prone. Reynal-Querol (2002a, 2002b, 2005) finds that the level of inclusiveness of the political system quite accurately captures the political aspects that matter to prevent social conflicts.
Djankov and Reynal-Querol (2007) investigate whether the quality of economic institutions has played a role in sustaining peace. In particular, they test the hypothesis that when governments cannot enforce the law and protect property rights, conflict emerges. The idea that strong institutions prevent conflict derives from the theoretical literature of conflict: Haavelmo (1954), Grossman (1994, 1996), Skaperdas (1992, 1996), Garfinkel (1990), Hirshleifer (1995), among others. The results indicate that a lack of secure property rights and law enforcement is a fundamental cause of civil war. Recently, Besley and Persson (2008), in the paper "The Incidence of Civil War: Theory and Evidence", provide a theoretical and empirical framework for the study of the causes of conflict. The aims of this paper are to develop a theoretical model on the economic and institutional determinants of civil war, and to use this model to interpret the evidence on the prevalence of civil conflict across countries and its incidence within countries over time. This work is a first step along an iterative path where the development of theory and empirical work in this area are joined together. The main empirical contribution of this paper is to look at the incidence of conflict, controlling for unobserved causes behind the uneven incidence of civil war across countries and time by fixed country effects and fixed year effects. One of the main results is that they show that country-specific price indices constructed for agricultural products, minerals and oils have considerable explanatory power in predicting the within-country variation of conflict. Preliminary results indicate that higher prices of exported commodities raise the probability of observing conflict. The same result is found for higher processes of imported commodities. This seems to depend on the country's institutional framework.

The role of ethnic differences has also been explored in the literature of civil wars. Several authors have stressed the importance of ethnic heterogeneity in the explanation of growth, investment, and the efficiency of government for civil wars. Easterly and Levine (1997) find empirical evidence to support their claim that the very high level of ethnic diversity of countries in Africa explains much of their poor economic performance. Several authors have interpreted the finding of a negative relationship between ethnic diversity and growth as being a consequence of the high probability of conflict associated with a highly fractionalized society. For this reason, many papers use the index of ethnolinguistic fractionalization (ELF) as the indicator of ethnic heterogeneity. However, many authors have found that even though ethnic fractionalization seems to be a powerful explanatory variable for economic growth, it is not significant in the explanation of civil wars and other kinds of conflicts. These results have led many authors to disregard ethnicity as a source of conflict and civil wars. Fearon and Laitin (2003) and Collier and Hoeffler (2004) find that neither ethnic fractionalization nor religious fractionalization have any statistically significant effect on the probability of civil wars.
Horowitz (1985), who is the seminal reference on the issue of ethnic groups in conflict, argues that the relationship between ethnic diversity and civil wars is not monotonic: there is less violence in highly homogeneous and highly heterogeneous societies and more conflicts in societies where a large ethnic minority faces an ethnic majority. If this is so, then an index of

[5] See also Chassang and Padró-i-Miquel (2008a, b)

polarization should better capture the likelihood of conflict, or the intensity of potential conflict than an index of fractionalization. Montalvo and Reynal-Querol (2005) argue that one possible reason for the lack of explanatory power of ethnic heterogeneity on the probability of armed conflicts and civil wars is the measure for heterogeneity. In empirical applications, researchers should consider a measure of ethnic polarization, the concept used in most of the theoretical arguments, instead of an index of ethnic fractionalization. They find that ethnic polarization is an important determinant of the incidence of civil war.

The role of natural resources on conflict has also been analyzed in the literature:
Collier and Hoeffler (2004) find that primary exports, a proxy for natural resources, has a positive effect on the probability of civil wars. This finding, however, is not robust to the specification of the model (see, for instance, Fearon and Laitin 2003, and Montalvo and Reynal-Querol 2002, 2005) and depends heavily on the imputation criterion of missing data for the countries, when there are no official data on primary exports. Some case studies provide a more compelling explanation of the relationship between natural resources and civil wars (Ross 2003). Fearon (2005) shows that the relationship between primary commodity export and conflict found in Collier and Hoeffler is not robust to minor changes in the sample framing, and recovery of missing data undermine it. Fearon argues that oil drives these results. Oil predicts risk of civil war not because it provides an easy source of rebel finance but because oil producers have low state capabilities. One of the main findings in Humphreys (2005) is that " the impact of natural resources on conflict cannot easily be attributed entirely to the weak states mechanism, and, in particular the impact of natural resources is independent of state strength. And that the link between natural resource and conflict is driven in part by agricultural dependency rather than by natural resources more narrowly defined. "

For detailed surveys on conflict read Blattman and Miguel et al. (2009) and Skaperdas and Garfinkel (2008).

Aid effectiveness

Recently, Sachs et al. (2004) have argued in favor of a massive increase in foreign aid to Africa in order to escape from a supposed poverty trap. They propose to increase the capital stock in one step, through a large, well targeted, infusion of foreign assistance. In their proposal "the flow of aid is targeted to a particular set of investments, and specifically public sector investments, so that the aid cannot be used for consumption" (pp. 144–45). However, most of the empirical evidence on the effectiveness of foreign aid is discouraging.
The literature on aid effectiveness has grown so large that in the ERD 2009 we shall confine our focus to what Hansen and Tarp (2001) call the analyses of "third generation", which can be traced back to Boone (1996). Boone finds that aid does not significantly increase investment, or any human development indicator, but it does increase the size of government. Burnside and Dollar (2000) concentrate on the differential effect of policies, rather than political institutions, on the effectiveness of aid. They find that aid works in "good policy environments" – notably sound fiscal, monetary, and trade policies. The results in Burnside and Dollar (2000) imply that increasing the conditionality of aid on policies would improve its effectiveness.[6]
Their influential work has led many policy makers to disburse aid to countries with good institutions. Since fragile countries do not belong to this group, they may be exposed to the risk of becoming what McGillivray (2006) labels "aid orphans".

The result of Burnside and Dollar (2000) has recently been challenged by Easterly, Levine and Roodman (2004), who find the result of the former (2000) sensitive to sample size. Easterly (2003a) points out that the findings in Burnside and Dollar (2000) are also sensitive to the

[6] Related studies have corroborated this finding: the interaction of aid and good policies is robust to the inclusion of additional explanatory variables, such as commodity export price shocks in Collier and Dehn (2001), or the adoption of alternative proxies for good policies (Collier and Dollar, 2002).

definition of foreign aid, policies and output per capita. Easterly (2003b, 2006) makes a broader argument as to why aid frequently fails.
Hansen and Tarp (2001) examine the relationship between foreign aid and growth of real income per capita, as it results from simple extensions of common cross-country growth specifications. They show that aid increases the growth rate of income, and this effect is not conditional on "good" policy. They emphasize the existence of decreasing returns to aid, and that the estimated effectiveness of aid is highly sensitive to the choice of the estimator, and to the set of control variables. For robustness, Roodman (2004) tested the results of seven aid-growth papers to investigate the importance of potentially arbitrary specification choices while minimizing the arbitrariness on testing choices, and found that they were not robust.
The results in Przeworski and Vreeland (2000) and Barro and Lee (2005) cast further doubts as to the relationship between domestic policies and aid effectiveness. Both studies analyze the effectiveness of IMF credits and conclude that loans reduce economic growth and investment in the recipient countries. More recently, Rajan and Subramanian (2007a) find no evidence of a relationship between aid and economic growth, even after correcting for the fact that aid typically goes to countries with poor economic performance.
The literature has also analyzed the effect of aid on institutions. Rajan and Subramanian (2007b) argue that foreign aid may reduce the need for government taxes and can therefore be associated with weak governance. They propose an IV methodology to show that governance matters, using the growth of governance-dependent industries. Knack (2004), using information from the Freedom House index, argues that there is no evidence that aid promotes democracy. By contrast, Djankov, Montalvo and Reynal-Querol (2009) use two variables, Checks and Balances of the Database of Political Institutions (DPI) and the democratic score of the Polity IV, to calculate the democratic stance of a country. In addition, they consider, simultaneously, the effect of foreign aid and other easily extractable resources (in particular oil) to avoid the problem of an omitted variable. Their findings support the view that foreign aid can damage institutions. In this paper they discuss this effect and document its magnitude. Using panel data for 108 recipient countries in the period 1960 to 1999, they find that foreign aid has a negative impact on institutions. In particular, if the foreign aid over GDP that a country receives over a period of five years reaches the 75th percentile in the sample, then a 10-point index of democracy is reduced by between 0.5 and almost one point, indeed a significant effect. For comparison, they also measure the effect of oil rents on political institutions. They find that aid is a bigger curse than oil.

The literature has also analyzed potential explanations as to why aid has pervasive incentives. Acharya et al. (2006) argue that the "immediate consequence of the proliferation of donor organizations is a very large increase in the transactions costs incurred by agencies of recipient governments in their engagements with aid donors. The more donors there are, the easier it is to assume or assert that the lack of development progress is someone else's fault; and the greater are the temptations for individual donor agencies to focus efforts on obtaining good results from their own projects, even if this impinges adversely on overall aid performance." Morss (1984) argues that, "…donor and project build-up, which continues into the 1980s, is having a negative impact on the major government institutions of developing nations. Instead of working to establish comprehensive and consistent development objectives and policies, government officials are forced to focus on pleasing donors by approving projects that mirror the current development enthusiasm of each donor."
It has been argued that donors may follow political and strategic interests in directing aid. Alesina and Dollar (2000), for example, find that a colonial past and political alliances are major determinants of foreign aid. Dollar and Levin (2004) examine the allocation of foreign aid by 41 bilateral and multilateral agencies. They find that some of the largest donors, for example France and the United States, do not direct aid to countries with good policies.
Knack and Rahman (2004) calculate two measures of donor fragmentation using the index to analyze the impact of donor fragmentation on the quality of government bureaucracy. Knack and Rahman (2004) find that the more fragmented the donors are, aid undermines the quality of government's bureaucracy more severely in recipient countries. These results can be interpreted as the political consequence of the transaction costs derived from a high degree of donor fragmentation.

Easterly (2007) uses the Herfindahl-Hirschman index to calculate a donor fragmentation index as a measure of specialization. He argues that "one of the big causes of the even more severe coordination problem in foreign aid is that all donors seem to want to "plant their flags" everywhere.
Djankov, Montalvo and Reynal-Querol (2008b) analyze the effect of donor fragmentation on the effectiveness of foreign aid. They argue that it is not only the identity of donors but their number in any recipient country that matter for aid effectiveness. When many donors are involved, aid may have no effect, or in some cases even a negative one. The former may be the result of increased coordination problems between the government and various donors. The latter can take place when the presence of multiple donors increases corruption in government.
Competition may not be beneficial in the market of aid, because it could generate corruption in the government. This could happen with various donors working with different layers of the government, sometimes with little supervision of how the money is spent. Reinikka and Svensson (2004), for example, show that in Uganda, only 16 cents of every aid dollar directed to primary school education reached its intended target. The rest disappeared on the way. Olken (2005) shows that 28% of the aid money in community-development infrastructure projects in Indonesia is lost due to corruption.
Easterly and Pfutze (2008), provide an analysis of aid best practiced. One of their main conclusions is that aid effort is splintered into many small efforts across all dimensions (number of donors giving aid, number of countries receiving aid from each donor, and number of sectors in which each donor operates)

For detailed survey on aid read:
Easterly "Can the West Save Africa?" Journal of Economic Literature, forthcoming 2008.
Easterly How the Millennium Development Goals are Unfair to Africa" World Development, forthcoming.

Aid in fragile countries

As the effectiveness of aid is questioned over the whole set of recipients, it is reasonable to expect that aid effectiveness represents an even more challenging task in fragile countries.
There is increasing evidence that insufficient - and excessively volatile - aid has been provided to fragile states and that it has been largely targeted in ineffective ways (McGillivray, 2005; Levin and Dollar, 2005). Chauvet and Collier (2004) highlight the destabilising impact that aid dependence and unreliable funding streams can have. When aid is suddenly withdrawn by donors, heavy aid dependence leads countries to severe cuts in service provisions, thus contributing to increased fragility. Besides predictability, another important issue is related to the design of donors' interventions to suit local needs with institutional processes relying on local capacity, rather than imposed from outside (i.e. the issue of ownership).

The role of aid in conflict-affected countries is also controversial. For instance, it is not clear whether and how aid might contribute to post-conflict reconstruction. The book From Conflict to Recovery in Africa by Tony Addison, uses the examples of Angola, Eritrea, Ethiopia, Guinea-Bissau and Mozambique to explain the importance of broad-based recovery in post-conflict reconstruction. To explore how societies go from conflict to recovery, the book analyzes the role played by communities, the private sector and the state. "Unless communities rebuild and strengthen their livelihoods, neither reconstruction nor subsequent growth will be broad based. But communities cannot prosper unless private investment recreates markets and generates more employment. And neither communities nor the private sector can realize their potential without a development state" (Addison, 2003). International actors, such as aid donor agencies, can help by assisting better peacekeeping, and NGOs can assist by rapidly addressing emergency needs so that "strengthening the capacities of national actors is therefore essential for international assistance to work well". Governments need to encourage private investment and protect property rights, and, at the same time, protect public interest and defend the poor. For this, it is crucial to ensure democratic institutions that do not favor the elites against the poor or ethnic minorities. A fair allocation of public spending across regions and ethnic groups is therefore crucial to eliminate the potential grievances that are at the roots of conflict: "transformation, rather than reconstruction, is the watchword for broad based recovery". In his words, "if resources are available, then rebuilding shattered infrastructure is a reasonably straightforward task. Reassembling pre-war institutions may not be too difficult either. But it is a lot harder to transform institutions and policies, specially, when these favor one social group over another. Yet, unless this is done, recovery will be narrow rather than broad in its benefits, poverty will remain high, and conflict will almost certainly return" (Addison, 2003).

Mark McGillivray (2006) presents a summary of aid allocation and effectiveness. He defines a Fragile State as a "country with either critically poor policies or poorly performing institutions, or both" (p.1) (or countries on the bottom two quintiles of the World Bank's CPIA and those "not rated" by the Bank). To analyse how aid should be allocated in developing countries, and particularly in Fragile States, the paper presents different aid allocation models.
Chauvet and Collier (2006) analyse whether aid is helpful in Failing States. According to the paper, failing states are "countries that have both very low per capita income and persistently poor governance and policies" (p.4). The authors find out that "contrary to the prevailing view in the literature, timely and appropriate aid significantly increases the chances of a sustained turnaround in a failing state". Aid should break a binding constraint to be sufficient and necessary for reform.
Browne (2007) analyses the aid relationship with respect to three weak countries: Burma, Rwanda and Zambia. This paper strongly criticizes utilities, modalities and distribution of aid by the donor community, because this aid is mostly based on donors' self-interested reasons. Firstly, the author presents different fragile/failed state definitions throughout the paper, concluding that "the most comprehensive and most widely acknowledged set of indicators for developing country performance tracking is the MDG" (p.3).
McGillivray and Feeny (2008) examine possible links between aid and economic growth in fragile states, between 1977 and 2001. They stress that there is no visible difference between the impact of aid in fragile states and other aid-receiving countries. Instead, if we use a lower policy and institutional performance threshold to consider a state fragile, then the difference becomes observable. In highly fragile states (bottom CPIA quintile), there is an association between aid and growth (though much lower than in other countries). It is also observable that providing excessive amounts of aid reduces its effectiveness (diminution of incremental impact on GDP per capita growth).
The work of Carment, Prest and Samy (2008) attempts to determine an distribution of aid allocation, especially in Fragile States, stressing the need to understand how and why these states became fragile. Besides, the authors use Authority, Legitimacy and Capacity variables (ALC) to determine the fragility of states.
Guillaumont. (2008a) questions the "conventional model" of aid allocation (performance-based allocation – PBA), that has an important influence on donors' aid allocation, even if it is not fully implemented. The author presents new allocation criteria adapted to development goals, focusing on a combination of the principles of effectiveness and equity. By equity we mean that "allocation should promote more equal opportunities among countries through criteria corresponding to the structural handicaps faced by each country" (p.26). By effectiveness we mean that "allocation should contribute effectively to economic growth and poverty reduction by retaining among criteria the main factors on which aid effectiveness depends" (p.26).
Guillaumont. (2008b) examines the design of a structural economic vulnerability index for low-income countries, based on the Committee for Development Policy's economic vulnerability index (EVI). According to the author, these uses of EVI should permit to consider structural vulnerability more effectively.

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