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Editorial

Almost twenty years after the Millennium Declaration – setting precise targets for reducing poverty, improving health and education and promoting gender equality – and seven years from the deadline for achieving the Millennium Development Goals, reports on the progress to date are relatively pessimistic. For example, Ravallion and Shen (2007)[1] show that the total number of poor (excluding China) rose in the period from 1993 to 2002, particularly in sub-Saharan Africa, the continent with the largest number of least-developed countries. These negative results in Africa pose the question of the effectiveness of development aid policies.

There is now general agreement that good policies alone are not enough to guarantee sustainable growth. There are other vital factors, such as the quality of the institutions, local participation and 'ownership' of the policies. Other important factors are whether or not there are mechanisms to enable public debate on the problems encountered by the population and the latter's ability to force the government to accept responsibility for its actions, i.e. its accountability. Countries with the lowest scores for governance also have the lowest scores for human development (Kaufmann 2005)[2] and attract less investment (Mauro, 1996)[3].

In this context, certain donor countries and international institutions decided to set conditions for aid, linked to good governance indicators. Ravi Kanbur went still further and proposed that aid allocation formula should not only include levels of development (designed to capture the need for aid) but also the variations in these levels (to reflect aid 'productivity')[4]. Recent discussions on aid conditionality have nonetheless underlined the pernicious effects of selectivity: the poorest countries are often also those with the weakest institutions and those where there are delays in implementing reforms and a lack of democracy. Hence, in 2006, half of Official Development Assistance (excluding debt relief) went to only five of the 38 countries qualified as 'fragile states' by the OECD, mainly countries in conflict (Afghanistan, Sudan and DRC). Denis Cogneau and Jean-David Naudet[5] made a precious contribution to the debate on aid allocation criteria by introducing the principle of equal opportunities, taking into account the structural disadvantages that hamper growth rather than the quality of past policies. These structural disadvantages weigh heavily on the category of countries known as *fragile states*.

Part of the work on fragile states presented in this issue of Dialogue was carried out for the World Bank programme on *Low Income Countries Under Stress* (LICUS). The studies carried out by Lisa Chauvet (IRD, DIAL) and Paul Collier (Oxford University) began by establishing a working definition of 'fragile states' which focuses on the institutions and policies introduced by the governments rather than on the results of these policies. They went on to study the factors which prevent the implementation and sustainability of political reforms. Finally, they assessed whether technical assistance and financial aid can help lift the constraints weighing on fragile states.

As of January 2008, Javier Herrera, Director of the DIAL Research Unit was also appointed Director of the DIAL Economic Interest Group, on request from its Board of Directors. He took over from Jacky Fayolle.

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DIAL Développement Institutions & Analyses de long terme

4, rue d'Enghien • 75010 Paris (France) • Phone 00 33 (0)153 241 450 • Fax 00 33 (0) 153 241 451 • www.dial.prd.fr

AID AND REFORM IN FRAGILE STATES

The growing interaction among countries due to globalisation has sparked off renewed interest in the international community for the problem of so-called 'fragile' states. Such countries - which are also referred to as 'failing states' or 'difficult partnerships' – are seen as a threat to international security (pandemics, terrorism, etc.). As the world's poorest group of countries, their persistent institutional weakness excludes them from the global development process.

We carried out a study of reforms in fragile states in a view to identifying the main factors that prevent change from taking place in these countries and the opportunities for effective action by the international community.

1. Definition of fragile states

Fragile states can be analysed from two different standpoints: political experts consider that states fail when they are no longer able to guarantee the internal and external security of their citizens, whereas for economists, they fail when they are incapable of offering the economic opportunities to enable the population to escape from poverty.

For the purposes of our study, we adopt an economic definition: the concept of fragile state refers to poor countries - i.e. low income countries as defined by the World Bank (World Development Report, 1977-2004) - with weak institutions and economic policies.

There is a relatively broad consensus on the classification of poor countries, but it is more difficult to assess weak policies and institutions. We used the World Bank's Country Policy and Institutional Assessment (CPIA), which rates twenty aspects of economic policies and institutions on a scale from 1 to 6[1]. The main advantage of the CPIA is that it provides an assessment of political choices made by the governments rather than their economic performance, which can be affected by factors beyond their control (e.g. climate or trade shocks). However, the CPIA also has certain disadvantages. Like all subjective rating systems, it is influenced to a great extent by the judgement of economists at the World Bank who tend to make more positive assessments of high-growth countries, whatever economic and structural policies they may have adopted. Nonetheless, this subjectivity is mainly a problem for countries in the middle or upper part of the CPIA ratings and there is generally a consensus concerning countries at the very bottom of the CPIA scale, such as Angola, the Comoros, DRC, Congo, Haiti, Liberia, etc.

In our study, fragile states are low-income countries with a CPIA rating of less than 2.5 for at least four consecutive years. This 4-year condition helps distinguish between temporary crises and on-going failures. The list of fragile states established with this definition is presented in Table 1.

2. Persistent lack of reform

As fragile states are characterised by a persistent lack of reform, we examine reform episodes which enable countries to escape from this category. To do so, there must be substantial improvements in their economic and institutional situation: we assume that an initial CPIA rating of less than 2.5 must have increased to over 3.5 for such improvements to have taken place.

Table 1 presents the periods of reform which match this definition. Over half the states which have been fragile since the end of the 1970s have not managed to escape from this category, thus underlining the persistent nature of fragile state status. Confirming this intuition, the econometric estimation of the probability of reform in fragile states suggests that each year there is less than a 2% chance of substantial reforms being launched, implying that the expected duration of state fragility is around 55 years.

To explain why there is a persistent lack of reform in fragile states, we explored two types of internal constraints. The first concerns the political will of the ruling elites and the second, the lack of 'knowledge' and 'capacity' required for elaborating and implementing reform. We analysed the impact of these two types of constraints on (i) the start of substantial reforms (Chauvet and Collier 2007, 2008) and (ii) how incipient reforms progress into substantial reforms (Chauvet and Collier, 2006, 2007).

Having identified the two types of constraints, the key problem was to capture them in the econometric estimations. To account for the preferences of the ruling elite, we used a variable for natural resource rents, the underlying assumption being that the presence of such rents encourages the political elite to redistribute the resources to their supporters

1 Using the 'International Country Risk Guide' (ICRG) has no impact on our conclusions.

rather than to serve the general interest. In these circumstances, natural resources appear to lessen the country's chances of escaping from fragile state status. The type of political regime must of course be taken into account and it can be assumed that if the elite's political support is widened it will have less recourse to socially ineffective plundering. Our econometric estimations therefore include a variable to account for the democratic nature of the regimes[2] and a variable for the timing of elections (the number of months since the last elections).

The second type of failure, relating to a lack of 'knowledge', can stem from the fact that too few people are educated, either because too small a percentage of the population has access to education or because the country is too small to reach the critical mass required to provide an educated elite. We therefore included the level of education and the size of the population in our estimation.

The preconditions for reform

The estimate of the factors favouring the start of substantial reforms suggests that political will and knowledge are two key factors of failure. A 1% increase in the number of people reaching the level of secondary education doubles the probability of starting reforms. This represents a strong drop in the average time during which countries keep fragile state status, which falls from 55 to 37 years. On the other hand, a 1% increase in the share of rent on natural resources in the GDP, leads to a 7-year increase in the average length of fragile state status.

As for the democratic nature of the regime, it does not have a significant impact on the chances of implementing substantial reforms. On the contrary, the timing of elections has a quadratic impact on the probability of reforms: our estimates suggest that the optimal frequency of elections is 72 months (Chauvet and Collier, 2007). In our sample of fragile states, the frequency is 61 months. Increasing the length of political terms to the optimal level triples the probability of substantial reforms. The leaders' political terms therefore have a crucial impact on their decisions to launch reforms: more frequent elections tend to prevent change.

Factors promoting sustainable reforms

An incipient reform can either collapse or evolve to become a substantial reform that will help the country escape from its fragile state status. We carried out an econometric analysis aimed at identifying the factors which prevent an incipient reform from becoming a substantial reform (Chauvet and Collier, 2006). Our estimates show that the political will of the ruling elite is vital to the sustainability of a reform. Recalling that the elites' preferences are accounted for by the level of natural resource rents, the results show that such rents tend to delay the process of turning an incipient reform into a substantial reform. This can be interpreted in the sense that, if the lack of reform threatens the income of the elite, the latter may be obliged to set in motion reforms that are of benefit to the society as a whole. Any source of financing that helps the elite finance its political support will therefore tend to delay the reforms. This result is confirmed by the extremely adverse impact which positive export price shocks have on reforms. An increase in export revenue due to a price shock tends to decrease the probability of incipient reforms becoming substantial reforms.

Our results also suggest that the democratic nature of the regime has an impact on the reform process. A U-shaped relationship between the degree of democracy and progress in reforms suggests that too little democracy is detrimental to the reform process. Democratic institutions must be firmly established before they can have a positive impact on the reform process.

3. High costs for fragile states and their neighbours

A crucial point which underlines the importance of reforms in fragile states is the cost of the lack of reform. We assessed this cost for the population of fragile states, but also for their neighbours (Chauvet, Collier and Hoeffler, 2007a; 2007b).

The costs of fragility can be related to two factors, security and the economic situation. We therefore widened the economic definition of fragility to include wide-scale violence as well as weak institutions and economic policies.

We estimated the loss of income due to relatively lower growth in fragile states and neighbouring countries. The results show that the loss of growth due to weak institutions and economic policies in fragile states at peace amounts to 2.6 percentage points per year, to which must be added an additional loss of 1.6 percentage points per year relating to violence.

2 Measured by the Polity IV indicator on a scale of 0 to 10.

Fragile state status is persistent and the loss of income accumulates over the years. Each year, these countries have less than a 2% chance of escaping from the category. By combining this probability with the loss of income due to poor growth performance, we estimate that fragile states lose approximately 5 times their initial GDP due to weak policies and institutions and a further 0.65 times their initial GDP due to violence.

We also evaluated the negative externalities for neighbours of fragile states in terms of loss of growth. Our econometric results suggest that the loss of growth for neighbours of fragile states, whether they are at war or at peace, amounts to 0.6 percentage points of growth per year. Cumulated over time, the loss due to neighbouring fragile states amounts to 1.5 times the initial GDP.

However, the overall cost borne by neighbours is far higher than the cost borne by the population of the fragile states, because fragile states have an average of 3.5 neighbours and the initial GDP in neighbouring countries is much higher than in the fragile states themselves. Based on the 23 fragile states in our sample, the cost for the population of fragile states amounts to 800 billion dollars, expressed in net present value (NPV) terms, whereas the cost for their neighbours amounts to 4,700 billion dollars. The total cost is therefore 5,500 billion dollars in NPV terms, i.e. approximately 280 billion dollars per year.

The total annual cost of fragile states is therefore extremely high. By comparison, it represents more than twice the budget for Official Development Assistance, even if this reaches the target of 0.7% of GDP to which the OECD countries are committed. Over 80% of this cost is borne by the neighbours of fragile states, suggesting that these bordering countries have a legitimate interest in improving the situation of their neighbours.

4. How can we help fragile states implement reforms?

The cost of fragile states calls for intervention from the international community, notably through development assistance policies. In this context, the problem is to determine whether aid to fragile states is effective and if so, under which conditions.

Technical assistance and financial aid to fragile states

We distinguish between technical assistance and financial aid as these two forms of aid can have a different impact on the constraints weighing on reforms in fragile states. By nature, technical assistance contributes to the public sector's capacity to implement reforms. As for financial aid, it can influence the 'knowledge' constraint, by its impact on education. However, the time-scale of reforms is far shorter than the time required before aid has an impact on national education levels. Financial aid to fragile states has a more certain impact by changing the elite's interest in reforms. Nonetheless, its theoretical effect on the elites' preferences is somewhat ambiguous. Aid creates incentives to reform through the system of conditionalities, but it can also finance inertia (Rodrik, 1996). Whereas a lack of reform can threaten the elites' financing of their political support, an inflow of aid can enable them to delay reforms which would otherwise be necessary.

The respective roles of technical assistance and financial aid were assessed in terms of starting reforms and of the sustainability of reforms in fragile states (Chauvet and Collier, 2006; 2008). Our econometric estimations suggest that technical assistance has a globally positive impact on reforms, as it increases the probability of a substantial reform being started. Once the reform has started, technical assistance supports the process during the early years. The results suggest that a major constraint weighing on reforms is the public sector's capacity to implement them. In the first years of reforms, technical assistance helps countries face up to the constraint concerning capacities, but the positive effect does not last. After a few years of reforms, technical assistance no longer has a significant influence. This can be explained by the fact that a country's capacity to introduce reforms evolves with the reforms themselves. Hence, as the reforms progress, there are fewer needs for technical assistance.

As far as financial aid is concerned, it does not have a significantly robust impact on either the start of reforms or their sustainability. In cases where the estimates show that aid does have a significant effect, it is negative. Similarly to natural resource rents or positive export price shocks, aid inflows tend to decrease the probability of incipient reforms turning into substantial reforms.

Windows of opportunity

Our results suggest that interventions by donor countries should be adjusted to suit the different stages of the reform process. For example, our findings show that it is ineffective to allocate technical assistance when the recipient country has shown no sign of initiating reforms or changes. The start of incipient reforms can therefore by seen as a signal – observable by the donors – that change is being initiated in the country in question. We obtain very similar conclusions using alternative signals such as a change of leader or a post-conflict situation. There therefore appear to be windows of opportunity for donor organizations or countries to intervene in fragile states. However, if the country does not show any sign of change, interventions in the form of technical assistance and financial support are ineffective and can even be detrimental to the reform process.

Increased supervision of aid projects in fragile states

In a complementary study, we explored the effectiveness of the supervision of aid projects in fragile states (Chauvet, Collier and Fuster, 2006). We estimated the probability of success for approximately 2,000 World Bank projects, depending on their characteristics and on macro-economic and institutional factors. Our results suggest that the supervision of projects by the World Bank's economists is relatively more effective in fragile states than in the other developing countries.

This result can be explained by the fact that supervision is a substitute for the convergence of the recipient countries' and the donors' objectives. It therefore seems possible to use project supervision to compensate for divergence in the donor organizations' and the fragile states' objectives as to the use of the funds (divergence expressed in the revealing term 'difficult partnership'). In this case, supervision is relatively more effective when the donors' and the recipients' objectives diverge. Unfortunately, our study also shows that aid projects in fragile states are not supervised as well as in other countries.

Conclusion

One of the main characteristics of fragile states is the persistence of their fragility. We have identified several sources of failure which explain the lack of change in these countries and have tried to identify means of action for the international community. One major constraint seems to be the ruling elites' political will to introduce reforms. In this respect, natural resources, windfall export income and financial aid tend to lessen the elites' preference for reform. Another source of failure comes from the lack of 'knowledge' or 'capacities'. Technical assistance and aid targeted on education help to mitigate these constraints and have a positive impact on reform process in fragile states. However, interventions by donor countries must take into account windows of opportunity for action. If the country in question shows no sign of implementing change, interventions from donors can be counter-productive.

Lisa Chauvet
Paul Collier

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Table 1. List of fragile states and periods of reform.

Fragile states, 1977-2004 No substantial reforms	Fragile states which undertook substantial reforms	Date
Angola	Albania	1991-1995
Cambodia	Bangladesh	1977-2000
The Comoros	Benin	1987-2002
Dem. Rep. of Congo	Burkina Faso	1987-1994
Rep. of Congo	Burundi	1983-1988
Equatorial Guinea	Central African Rep.	1977-1989
Guinea	Côte d'Ivoire	1992-2000
Guinea-Bissau	Egypt	1988-2000
Haiti	Ethiopia	1991-2000
Laos	Ghana	1982-1987
Liberia	Guyana	1987-1996
Mauritania	Honduras	1989-1995
Mozambique	Indonesia	1977-1987
Myanmar	Lesotho	1987-1998
Niger	Madagascar	1978-1991
Nigeria	Nepal	1985-2003
Salomon Islands	Nicaragua	1989-1996
Sao Tome & Principe	Uganda	1986-1998
Sierra Leone	Pakistan	1979-1990
Somalia	Rwanda	1994-2003
Sri Lanka	Tajikistan	1997-2003
Sudan	Togo	1980-1987
Tanzania	Ukraine	1999-2003
Chad	Vietnam	1988-1991
Turkmenistan	Zambia	1990-2000
Uzbekistan		

Source: Chauvet and Collier (2008). Sustainable reforms are defined as an increase in CPIA rating from 2.5 to 3.5, sustained for a period of at least two years.

COMMUNICATIONS 2nd SEMESTER 2007

5th French-speaking symposium on Survey Sampling. (Marseille, 5-7 November). Communication by :

- Javier Herrera, Mireille Razafindrakoto and François Roubaud *« Gouvernance, démocratie et lutte contre la pauvreté : Enseignements tirés des enquêtes officielles auprès des ménages en Afrique francophone et dans la Communauté andine »*,
- Eloi Ouédraogo and Aude Vescovo *« Effet du plan de sondage dans les enquêtes emplois : les enquêtes 1-2-3 en Afrique de l'Ouest »*,
- Mireille Razafindrakoto and François Roubaud *« Peut-on se fier aux bases de données internationales sur la corruption ? Une confrontation entre enquêtes-experts et enquêtes-ménages en Afrique sub–saharienne »*.

5th African Population Conference. Communication by Philippe Antoine *« Transformation des modèles matrimoniaux (mariage, divorce et remariage) dans quatre capitales africaines : Antananarivo, Dakar, Lomé et Yaoundé. »*, (Arusha, Tanzania, 10-14 December).

5th Development Economics PhD Seminar - DIAL-EEP-EUDN Charlotte Guénard, discussant for article by Lucia Corno (Bocconi University, Milan) *« Learning (or not) in health seeking behavior: evidence from rural Tanzania*, (Paris, 6 December).

AFD. Communication by Denis Cogneau *« Critères d'allocation de l'aide »*, (Paris, 25 November).

AFD – World Bank – HCCI – MAE –OECD – Impact Network, Equity and Development Forum. Communication by Denis Cogneau *« Derrière l'équité : quelles inégalités et quelles politiques ? »*, (Paris, 6 November).

AFSE, **56th Annual Conference**. (Paris, 20 and 21 September). Communications by:

- Thomas Bossuroy *« L'ethnicité comme ressource en capital social »*,
- Emmanuelle Lavallée *« Les mécanismes à l'origine de la corruption »*.

CEPS/INSTEAD (Centre d'Etudes de Populations, de Pauvreté et de Politiques Socio-économiques / International Network for Studies in Technology, Environment, Alternatives, Development). (Differdange, Luxembourg, 6-8 November). Communications by:

- Jean-Pierre Cling *« Pauvreté et politiques publiques au Vietnam (1993-2004) »*,
- Emmanuelle Lavallée *« Pauvreté et institutions au Mali : quelques enseignements de l'enquête ELIM 2006 »*, Conference on poverty: dynamics, institutions and access to basic needs.

Chaire Quételet 2007, Poverty dynamics and vulnerability. Measurements and explanations in demographics and social sciences. Communication by Philippe Antoine, Alioune Diagne *« Trajectoire biographique et périodes de précarité à Dakar »*, (Louvain–la-Neuve, 27-30 November).

ECINEQ, 2nd meeting. (Berlin, Germany, 12-14 July). Communications by:

- Denis Cogneau and Sandrine Mesple-Somps, *« Inequality and Equity in Africa »*.
- Sandrine Mesplé-Somps *« Optimal Fiscal Policies according to Equality of Opportunity. A case study applied to Ivory Coast »*.

Forum Science and Society. Communication by Javier Herrera *« Pauvreté et Développement »*, (Québec, 2-4 November).

GDR. Development Economics and Transition. Communication by Philippe De Vreyer, Flore Gubert and François Roubaud *« Migration, Self-selection and Returns to Education in the WAEMU »*, Clermont-Ferrand, 3 July).

OECD, Experts Meeting on Return Migration. Communication by Flore Gubert *« Why do migrants return? »*. (Paris, 12 November).

OECD Experts Meeting on Water. « Sustainable Financing for Affordable Water Services: From Theory to Practice ». Communication by Anne Olivier *« Affordability: Principles and Practice »*, (Paris, 14 November).

PROPOLI-MINDES-Unión Europea, Mesa de Concertación de Lucha contra la Pobreza de Lima. Pobreza Urbana : Realidades y Desafios. Communication by Javier Herrera *« Caracterización de la pobreza urbana y del empleo en Lima metropolitana »*. (Lima, 11 September).

STATDEV, Seminar. Presenting and disseminating results. Communication by Emmanuelle Lavallée *« Pauvreté et institutions au Mali : quelques enseignements de l'enquête ELIM 2006 »*, (Bamako, Mali, 29 November).

SWIHA (System-wide Initiative on HIV/AIDS and Agriculture), International Conference « From Research to Actions: Mitigating the impacts of HIV/AIDS on Agriculture and food security ». Communication by Philippe Bocquier *« Impact Evaluation of a Nutrition Intervention within a Comprehensive ART Care Package in Benin »*, (Cotonou, Benin, 1-4 October).

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UN-ESCAP, Regional Workshop «Informal Employment and Informal Sector Data Collection: Strategy, Tools and Advocacy » Statistics Division. Communications by François Roubaud *« 1-2 HUEM Surveys: introduction to sampling design »* and *« 1-2 HUEM Surveys for National Accounts: some elements for estimation procedure »*, (Bangkok, Thailand, 19-21 September).

Laval University, Friday Seminar. Communication by Javier Herrera *« Poverty Dynamics in urban Peru and Madagascar »*, (Québec, 2 November).

Nantes University. LEN (Nantes Economics Laboratory) Seminar. Communication by Mathias Kuepie, Christophe J. Nordman and François Roubaud *« Education and Labour Market Outcomes in Sub-Saharan West Africa »*, (Nantes, 13 September).

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Beijing University, **CHEDS (Center for Human and Economic Development) – UNPD,** International Workshop on Dimensions and Indicators of Human Development. Communication by Javier Herrera, Mireille Razafindrakoto and François Roubaud, *« Using Household Surveys to Monitor Governance and the Multiple Dimensions of Poverty »*, (Beijing, China, 3-4 November).

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