



Tackling inequalities and vulnerabilities: Why and how G7 development policies could do better

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Main messages from the T7 meeting

The G7 has made the fight against inequality a crosscutting issue for the Biarritz Summit. The Development Ministerial will address issues of vulnerability, especially the Sahel Alliance. This focus on inequalities and vulnerabilities is nonetheless inseparable from a general discussion on financing sustainable development.

The international development agenda relies today on a very legitimate political basis, agreed on in 2015: Agenda 2030 and its Sustainable Development Goals, and the Addis Ababa Action Agenda on financing sustainable development. But even though this basis is politically sound, we are facing two major issues, requiring urgent action:

- **We are not on track for reaching SDGs in 2030**, even on goals that seemed to be reachable before 2015, such as poverty reduction, food, and nutrition security, or on essential issues like access to sanitation: significant change and acceleration in implementation is thus critically necessary. The SDG approach is also a call for a renewed approach, moving to a new form of partnership in a pluralist world.
- The landscape of the major players appears very fragmented. While the UK was a champion of Millennium Development Goals implementation between 2000 and 2015, **no country or region today has taken a position of leadership**. Leadership appears necessary, because of the multiplicity of players who have to play an important role in financing development (private and public, in particular).

The world is going through an unprecedented transition, and developing countries are at a crossroads. Investing in an inclusive, resilient, and sustainable economic transformation pathway is necessary for the sustainability of these countries' own development but is also a contribution to global public goods.

China has presented how it sees development and international cooperation through its Belt and Road Initiative and places this initiative under the overall objectives adopted by all countries in

2015: The Paris Agreement, and the 2030 Agenda with its sustainable development goals (SDGs). The Belt and Road Initiative's Chinese proposal is a pragmatic interpretation of these agendas, and could essentially be considered as an investment program in infrastructure, aiming at intensifying trade exchanges. It is also presented as exempt from political conditionalities.

Faced with this proposal from China, there is a lack of a clear ambition on the part of G7 Members. Even if we know that public official development assistance (ODA) will not be enough by itself, the G7 members are the biggest contributors to ODA and the largest shareholders of multilateral and bilateral development banks. The replenishment of many of the corresponding funds in the coming months is a very important window of opportunity for G7 country to show their leadership and shared ambition.

There is thus a need for G7 Members to put more emphasis on their common ambition: **supporting the implementation of Agenda 2030 by the countries themselves through their own definition of their economic transformation pathway, which takes into account all the dimensions of sustainability as well as of their vulnerabilities (economic, climatic and environmental, social). This shared ambition also entails putting the issues of governance and the promotion of democracy at the heart of the agenda, as a critical building block for reducing vulnerabilities.**

This last dimension is a distinctive feature of the G7 vision. More than just an affirmation of values or a conditionality, it is also instrumental in reaching sustainable development: building a robust and sustainable development pathway requires building on democratic institutions. In post-conflict situations and fragile states, the promotion of democracy and the liveliness of civil society are essential to building the foundations of socio-economic development.

In this general perspective, the G7 has a strategic role to play by focusing on vulnerability issues and specifically on Africa. This is true for, at least, three reasons. First, vulnerability and its structural root causes can be major obstacles in the next decade, preventing countries from reaching the Sustainable Development Goals. Second, in least-developed country contexts, simultaneously having to tackle poverty, inequality, and environmental degradation, as well as adapting to and mitigating climate change (as recommended by Agenda 2030) is a particularly challenging endeavour. This is why

the G7 countries' ambition to implement the 2030 Agenda in vulnerable countries needs to be clarified. The two concepts of inequality and vulnerability make it possible to move forward on this point, with the more specific recommendations that we propose hereunder. Third, African countries have coordinated and built initiatives at the regional and subregional scales, leading to even higher expectations for a clarified partnership with G7 countries (who should therefore be clearer in their proposal).

General recommendations

A central recommendation: reaffirming a G7 ambition for international cooperation in the domain of sustainable development, particularly in support of African initiatives.

Against this backdrop, and given the importance of G7 countries and their institutions in the development agenda, the G7 has an essential role to play by regaining a leadership capacity on the development agenda and by reaffirming its ambition for reaching SDGs, particularly in its relation to the African continent. **The G7 should confirm that its partnership with Africa is centred on supporting the long-term transformation of African societies towards sustainable development, alongside the transformation pathways that these societies define themselves. This implies particularly supporting existing initiatives in the framework of the African Union, like the Continental Free Trade Agreement and other regional or subregional initiatives.**

This should be a guiding principle not only for development interventions of G7 members, but also for the vision of trade relations of other blocks and regions with Africa and more generally for the reform of the global governance of trade. As such, it is a major recommendation for the G7 Heads of State meeting.

G7 leadership will be particularly important as the G7 summit comes at a time when the development agenda is being and will be discussed in the coming months (replenishment of multilateral development banks and other funds like the Green Climate Fund, High level political forum on Agenda 2030, SGNU Summit on SDGs and high level political dialogue on financing sustainable development).

Specific recommendations

It is only within this general perspective that a focus on inequalities and vulnerabilities, which is consistent with the G7 presidency's focus on inequalities, can be useful for the alignment and coordination of G7 development policies and strategies. The focus of the G7 development ministerial on the Sahel Alliance, and on education, gender, and health is essential. It should therefore be included in a broader perspective.

G7 leadership means the alignment of the G7 partner's objectives and the convergence of G7 policies and strategies, on top of coordination at the project level, without excluding pluralism and diversity in the means of implementation. The issue of inequalities and vulnerabilities offers an important potential to identify common ground.

It is with this perspective in mind that the following recommendations are formulated:

Inequalities between countries: allocation to vulnerable countries

Addressing structural vulnerabilities has the potential to equalise opportunities across countries and prevent vulnerable states from falling back into poverty traps and conflicts. Available indicators measuring countries' vulnerabilities offer considerable leeway to improve the allocation of aid to developing countries. **G7 members could commit to increase the amount of official development aid (ODA) allocated according to countries' various structural vulnerabilities (economic, climatic, social). This recommendation is particularly important ahead of critical meetings that will address the replenishment of multilateral development funds. In particular, with regard to the concessional windows of the multilateral development banks, G7 countries should coordinate to ensure that the concessional resources they provide jointly are made available to recipient countries based on their structural vulnerability as well as their degree of poverty, without sacrificing the objective of performance.**

Within countries inequalities: convergence of visions and coordination of strategies

Reducing inequalities has the political legitimacy of being one of the SDGs (SDG 10), but the means to implement the fight against inequalities remains a political choice to be made by countries. **G7 members should focus their intervention on supporting each country's strategies to tackle the root causes of its vulnerabilities**, building on evidence-based research, with a clear commitment to the reduction of structural factors of inequality among social groups, particularly gender inequality (SDG 5).

Important principles, some of which are already endorsed by the G7, constitute a common ground that must be reaffirmed, serving as a signal to the leadership of G7 countries on these issues, and as a way to align the strategic objectives of donors:

- ▀ Supporting institutional capabilities and policy building;
- ▀ Promoting interventions on governance, as they are critical to reduce vulnerabilities and inequalities, including the promotion of democracy and the support of civil society and its political space;
- ▀ Supporting regional or national **long term economic transformation strategies in order to reach sustainable development goals**, focusing on employment opportunities for a rapidly growing population, and taking into account the impact of digitalization;
- ▀ Supporting the establishment of a **basis for fiscal systems**, not to substitute domestic resources mobilisation to other sources of funding for development in countries where the latter are necessary, but rather as a no-regret investment for financing basic services, infrastructure, environment protection, as well as potential future social transfer systems;
- ▀ Committing to ensure the consistency of G7 policies and strategies with former recommendations, through fighting illicit financial flows and tax havens;
- ▀ Ensuring **transparency** in financial flows (including private financial flows);
- ▀ Supporting **the phasing out of fossil fuel subsidies**, not only because of their environmental impact, but also because they constitute a regressive policy;

- Monitoring **subnational-level inequalities** within countries and supporting strategies to tackle them;
- Supporting the **prevention of crises** by analysing and addressing the nexus between climate change, natural resources degradation, vulnerabilities, and conflict.

In situations where vulnerabilities are **structural obstacles to development**, **G7 countries should step up efforts to coordinate their interventions, through common objectives and beyond projects coordination, not excluding pluralism and differentiation.** In this regard, the Sahel Alliance can be used as a case study from which interesting lessons can be drawn.

Climate finance is critical to decrease climate change vulnerability and reach the objectives of the Paris Agreement. G7 countries' development institutions play a key role in pushing the climate finance agenda forward. G7 countries should therefore commit to fostering a more unified landscape for climate finance.

Background Note: Inequalities and vulnerabilities: what is at stake?

This paper aims to provide recommendations to donors, particularly the G7 countries, so that they will be able to more effectively coordinate and improve the way they tackle inequality and vulnerability in their development and cooperation policies. It builds on available research and policy documents, as well as first-hand assessment of donors' revealed preferences. It proceeds in three steps. The first section wraps up the latest findings regarding the inequality–vulnerability nexus. It makes clear that, for most donors, inequality and vulnerability refer to between-country and not within-country inequality, although a growing body of evidence suggests that the latter needs to be tackled to reach the widely shared objectives of environmental sustainability and human development in a broad sense. Section 2 then compares G7 members' doctrines and discourses on the fight against vulnerabilities and inequalities. One of the main findings is that few donors highlight the need to combat inequalities as the main goal of their cooperation and development strategy, even though it is a growing (and relatively new) concern for the G7 member states. In addition, Section 2 analyses how the fight against fragility encompasses different objectives not only among countries, but also within governments. Despite significant efforts to address these differences in recent years, through initiatives such as the Sahel Alliance or increased coordination between different ministries (Defence, Foreign Affairs and Development), there is still progress to be made. What's more, each donor seems to place more or less emphasis on specific themes that reduce vulnerability, spanning from strengthening governance and social needs, to inclusive growth and climate change adaptation. This is nuanced in Section 3, by the stylised data derived from an aid selectivity model that ranks countries according to the importance they attach to these variables through their aid allocation. Our model

actually shows heterogeneity across G7 countries when it comes to addressing vulnerabilities and inequalities.

The policy recommendations that we formulate from all our findings conclude the paper.

The inequalities–vulnerabilities nexus

Finding 1: Inequality of opportunity and vulnerability are closely intertwined at country-level

After decades of damage to the principle of economic convergence among countries, the early 21st century finally seemed to reconcile economic theory and textbooks with the facts. In the 2000s, GDP per capita grew steadily faster in poor countries than in more advanced economies. Even sub-Saharan African countries seemed to be swept up in this catch-up process, partly thanks to record price hikes on most commodity markets. Yet the 2010s showed that this convergence process was still fragile, particularly for countries with a limited capacity to cope with world market downturns and environmental shocks. In some cases, the unequal exposure to such shocks was compounded by the unequal capacity to mitigate their consequences, catching countries in a vulnerability trap¹.

Inequality of exposure and inequality of response-capacity to external, climatic and political shocks have gradually been into account by donors in terms of the allocation of their funds, in close connection with empirical research and think-tank recommendations (Boussichas and Guillaumont, 2015). Such inequalities are linked to vulnerability patterns, if we take the broader definition of inequality as being the inequality of opportunity (or “inequality of fate”) among nations. To put it another way, inequality among countries and vulnerability reduction policies are consubstantial. Even though their effectiveness in addressing the root causes or “structural handicaps” of vulnerable countries remains disputed, development and cooperation policies targeting vulnerable countries are consistent with the historical commitments of donor countries to lift countries out of poverty. From a donor

1. It should be recalled that vulnerability is defined as the risk of being negatively affected by exogenous shocks. These shocks can be economic, environmental or socio-political in nature. The concept of fragility generally refers to fragility of States, so to this last dimension of vulnerability, even if there are many different definitions of fragility in the literature.

perspective, the issue hangs on improving aid allocation and its overall effectiveness in situations of structural vulnerability (Guillaumont et al., 2017).

Finding 2: Reducing within-country inequality remains a second-class issue in the donor community

The situation is notably different when it comes to within-country inequality reduction. The World Wealth and Income Database (WID.world) shows that, while evidence of economic convergence can be observed at the global level since the 1990s, and particularly since the 2000s, within-country inequality is on the rise, with the exception of Latin American countries and, to a lesser extent, countries in sub-Saharan Africa. Research pioneered by Bourguignon, Morrisson, Ravallion, Piketty, Cingano, Wilkinson and Picketty, among others, has documented the multiple trade-offs between income inequality and health, income inequality and GDP growth, and inequality and resilience to environmental changes. The income inequality–vulnerability nexus, though still subject to scrutiny and a new field of research, seems to translate economic inequality into inequality of the capacity to cope with economic and environmental shocks. It thus magnifies the impact of these shocks and increases vulnerability. The more unequal a society, the less resilient it is to external shocks.

However, the “among” often overshadows the “within”, as sections 2 and 3 emphasise. The need to reduce within-country inequality for the sake of “sustainable development” has so far resulted in an uneven and circumspect buy-in from donors. Within-country income inequalities had politically been kept in the shadow of absolute poverty, until the Sustainable Development Goals replaced the Millennium Development Goals (MDGs, see Kabeer, 2010; Langford, 2010; de Albuquerque, 2012).

The unanimous endorsement of the Sustainable Development Goals target for income inequalities (target 10.1) by the United Nations Member States marks an important shift. Target 10.1 explicitly includes within-country inequality reduction in the global development agenda and states: “By 2030, progressively achieve and sustain a reduction in income inequality, as measured by the share of the bottom 40 per cent of the population in national income, alongside economic growth”.

This target of reducing within-country inequalities can be read in two ways. Firstly, as a means to improve the resilience of vulnerable countries in the face of adverse economic, environmental and socio-political shocks, including internal conflicts fuelled by structural inequality among social groups. Secondly, as an end, in order to reach out to the poorest people in nations across the world, beyond the “bottom billion²” (Collier, 2007), in the spirit of the Millennium Development Goals.

Finding 3: Donors can reconcile within-country inequality and vulnerability reduction

This 10.1 target was the subject of harshly contested debate in the Open Working Group tasked with establishing a list of goals and targets for intergovernmental negotiations. Many countries showed some reluctance towards this issue, which may also explain why donors deal with within-country inequality reduction in an uneven manner. Part of the reason for donors’ circumspection when it comes to reducing income inequality lies in the unresolved controversies surrounding the drivers of inequality. Part also lies in the lack of a possible common definition of what an acceptable level of income inequality would, could and should be.

A vast literature posits and tests the theoretical drivers of inequality, as well as subsequent policy areas to address them (for an overview of this literature, see for example, Atkinson, 2015). After a decade of landmark research, the coverage and quality of available data on global inequality have expanded significantly (Milanovic, 2013; WID, 2016). Though much remains to be learnt, a substantial body of knowledge is available on the core drivers of inequality and can guide policy responses. We endorse the view of Atkinson (2015) and others that, in view of the knowledge that we now possess about inequality drivers, the response to rising inequality should be framed around policies and institutions.

Chief among these are policies and institutions that propel an endogenous and sustainable tax-based development, in a virtuous circle of reducing inequality and political vulnerability. It is well-evidenced that, despite recent efforts to increase the amount of ODA

2. “Bottom Billion” refers to the populations of a group of countries at the bottom of the world economy.

directed to improving tax collection capacity and fiscal accountability in developing countries, the percentage remains far too low – under 1%. The idea is not to push vulnerable countries' tax-to-GDP ratio up to the 40%–50% range of Denmark, Sweden or France. Rather, there is a middle ground target somewhere between the ratio commonly observed in the former countries and the 6% tax-to-GDP ratio of a country such as Nigeria, from which too many countries fall far short.

If mobilising tax revenues is critical to addressing the challenges of within-country inequalities and vulnerabilities, the quality of expenditure is also crucial. A strategic “inequality and vulnerability reduction-driven” allocation of the collected revenues across sectors could complement a sustainable tax-based development. On this count, human capital (health and education) often comes first in policy prescription. However, the associated policies could be supplemented by policies mitigating environmental vulnerability which mostly affects the poorest, in order to support the shift onto resilient, sustainable development pathways.

Comparing the doctrines and discourses of G7 members as regards the fight against vulnerabilities

The first section has analysed the inequality–vulnerability nexus according to the literature: it differentiates the links between vulnerability and inter-country inequalities, and also within-country inequalities. Do G7 members make this connection in their development policies, and if so, how? The aim of this section is to come up with answers to this question by exploring and comparing the stances, doctrines, and ambitions of G7 when it comes to combatting inequalities and vulnerabilities in developing countries. We adopt a discourse analysis approach, drawing on official texts, statements, framework documents, and notes endorsed by official bodies in G7 countries that are active in fragile or vulnerable states.

Finding 4: Few donors highlight the need to combat inequalities as the main goal of their cooperation and development strategy

The fight against global inequality is at the heart of the discourse and political agenda of UN member countries, but when we analyse G7 members' strategic documents, we find that few countries have explicitly formalised the objective of reducing inequalities in their development policies. The United States,³ the United Kingdom⁴

³ U.S. Agency for International Development (2019), USAID Policy Framework: Ending the Need for Foreign Assistance and U.S. Department of State, U.S. Agency for International Development (2018), Joint Strategic Plan FY 2018–2022, February 2018.

⁴ U.K. Department for International Development (2017), Annual Report and Accounts 2017–18.

and Italy⁵, for instance, do not explicitly mention this objective in their strategies. Japan⁶ mentions it twice.

However, the objective of inclusive growth that many donors mention in their strategic documents (U.S., U.K., Italy, France, Canada, etc.) can in itself be deemed an objective of within-country inequality reduction as far as the lowest part of the income distribution curve is concerned. The Italian strategy⁷ refers, for instance, to the fight against inequalities as a positive side-effect of channelling of private-sector investment towards sustainable development. Moreover, for Italy, the reduction of inequalities is the natural consequence of access to decent work. The United Kingdom⁸ uses the expression “promoting global prosperity” and sees behind this notion the need to promote “inclusive economic growth, jobs, investment and trade...that spreads benefits and opportunities right across society.”

By the same logic, the objectives of contributing to access for all to essential services such as education, health and actions strengthening social goals, or at least not weakening them, are themselves objectives that academics refer to as being an ex-ante reduction of inequalities and which have an impact on reducing inequalities both between and within countries. Japan, for example, uses the term “rectifying disparities.”⁹ Underlying this concept is the need to invest in education, health, and gender disparities. France encompasses inequality through the notion of “100% social link”,¹⁰ by emphasising support for gender-inclusive policies, and access to all for essential services such as education and health.

Thus, across G7 countries that identify the fight against inequality as a specific direct or indirect objective of development and cooperation policy, different interpretations in its meaning arise. Depending on the perspectives of the G7 members, definitions vary between fighting within-country inequalities and between-country inequalities.

5. Italy (2016), International Development Cooperation three-year programming and policy planning document 2017-2019.

6. Japan MOFA (2017), Priority Policy for Development Cooperation FY2017.

7. Italy (2016), international Development Cooperation three-year programming and policy planning document 2017-2019.

8. U.K. Department for International Development (2017), Annual Report and Accounts 2017-18.

9. Japan MOFA (2017), Priority Policy for Development Cooperation FY2017.

10. Agence française de développement (2018) Pour un monde en commun Plan d'orientation stratégique 2018 – 2022, AFD, August 2018.

Germany,¹¹ France¹² and Canada¹³ **explicitly emphasise the goal of reducing inequalities as a main objective of their development policy.** Germany and France distinguish inequalities between countries and inequalities within-country and consider both as critical for developing countries. Canada and Germany have this general objective of reducing inequalities running through all their strategies.

Germany and Canada also share the specificity **of linking inequality and fragility.** Canada's vision, for example, is to “focus on empowering the poorest and most vulnerable to share in the benefits of growth. This helps to reduce poverty, inequality and marginalization” (Government of Canada, 2016).

While they do not converge on the necessity to curb within-country or international inequality, donors nonetheless agree on the need to fight poverty. It should also be noted that some countries (Germany, for instance) link poverty reduction to peacebuilding: “without more investment in state building and peacebuilding the fragile states may well be home to almost two-thirds of people living in extreme poverty by 2030” (BMZ, 2017).

Finding 5: Most G7 members’ strategies focus on fragile state and not on vulnerabilities.

It is interesting to note that **the issue of fragile states tops most of G7 members’ development agenda** (Japan, U.K., U.S., Canada, Germany and France) and **that the term “fragile state” is preferred by G7 members, rather than “vulnerability”.** Several definitions and categories of fragile states coexist, most of them with their own conceptual underpinnings and practical limitations (Bøås, 2017; Eriksen, 2011; OECD, 2018).¹⁴ Vulnerability is defined here as the risk of being negatively affected by exogenous shocks. These shocks can be economic, environmental or socio-political in nature. The concept of fragility, as used by G7 members,

11. BMZ (2017), Development Policy as Future-Oriented Peace-Policy – the German Government’s 15th Development Policy Report, June 2017.

12. Ministère de l’Europe et des Affaires étrangères (2019), Projet de loi d’orientation et de programmation relative au développement durable solidaire et à la lutte contre les inégalités mondiales- Projet pour discussion au CNDI le 22 Mars 2019.

13. Global Affairs Canada (2016), Report to Parliament on the Government of Canada’s Official Development Assistance 2016-2017.

14. For an update in the definitions and indicators of fragile states, see in particular OECD (2018).

generally refers to fragility of States, so to this last dimension of vulnerability, even if there are many different definitions of fragility in the literature and between donors. In any case, G7 members' strategies focus on a state's fragility rather than vulnerability.

Canada is an exception. It uses the word "vulnerable" no less than 99 times in its Global Affairs Canada, Report to Parliament on the Government of Canada's Official Development Assistance 2016-2017. The focus is specifically on the "most vulnerable population," meaning citizens within a country. Canada systematically links vulnerability and a state's fragility. It does not adopt the definition of vulnerability spearheaded by the research community, which has tried to capture it through specific indices cutting across economic, socio-political and climatic dimensions (see Section 3).

Finding 6: The fight against fragility encompasses different objectives among countries, and also within governments.

Due to the diversity of the root causes of fragilities and vulnerabilities, the spectrum of cooperation and development policy responses envisaged by G7 members to tackle these drivers is broad (Cammack et al., 2006). The need to build collaborative relationships between humanitarian aid, development assistance, and diplomacy in a large sense, including military actors, is now firmly recognised by and reflected in donor countries' strategic thinking (OECD/DAC, 2007; JICA, 2008). However, efforts to link up the multiple dimensions of external action in fragile states tend to be hampered by the divergence or misalignment of donors' objectives and priorities.

All G7 governments regard fragile states as both a development and security challenge. However, they differ in the weight they give these two dimensions in their allocation of funding and in their overall strategic planning. Motivations and objectives point to four directions: i) national security, ii) development, iii) reducing refugee flows, and iv) humanitarian aid. For example, Canada treats fragile states and global development as the centrepiece of its international engagement. Conversely, the United States is overwhelmingly motivated by the fight against terrorism, as is Japan, although to a

lesser extent. France¹⁵ gives more weight to national security, whereas Germany and Italy focus on the causes of population displacements. The U.K. falls somewhere in the middle.

Inevitably, each donor has its own priorities under the broad chapeau of “fighting fragilities and vulnerabilities”. What matters is to make the different objectives consistent with the overarching goal of securing a sustainable development pathway for the states and economies that are unequal as regards vulnerability. The Sahel Alliance is a good case in point: the initiative focuses on countries that are particularly vulnerable (Burkina Faso, Chad, Mali, Mauritania and Niger), and presents interesting modalities for coordination among donors. According to the French Foreign Ministry,¹⁶ the Sahel Alliance is not intended to be a new structure or financing entity, but a mechanism to reinforce the coordination among partners in the five Sahel countries. The idea is to pool existing and planned funds and projects in order to make aid faster, more effective and better targeted.¹⁷ For the time being, the goal of the Sahel Alliance is to promote effective coordination at the project level, more than aligning the rationales of G7 members.¹⁸

Strikingly enough, among governments, there is no unified approach to fragile states. For most G7 members, the concept of “fragile state” seems most popular among development ministries than among foreign or defence ministries. This lack of a unified strategic vision across government cabinets results in a welter of policy statements from different agencies. Only the U.S., among bilateral donors, has formulated a government-wide fragile states strategy¹⁹ but this does not prevent the U.S. from having

15. Ministère de l'Europe et des Affaires étrangères (2018), Prévention, résilience et paix durable, 2018-2022, Approche globale de réponse à la fragilisation des États et des sociétés, MEAE/DGM.

16. Ministère de l'Europe et des Affaires étrangères (2018), La force conjointe G5 Sahel et l'Alliance Sahel.

17. Ministère de l'Europe et des Affaires étrangères (2018), La force conjointe G5 Sahel et l'Alliance Sahel.

18. Today, the Alliance has expanded to include twelve bilateral and multilateral partners: France, Germany, Denmark, the United Kingdom, Italy, Luxembourg, the Netherlands, Spain, the European Union, the African Development Bank (AfDB), the United Nations Development Programme (UNDP) and the World Bank. Sweden, Norway, the United States Agency for International Development (USAID), the Global Alliance for Vaccines and Immunization (GAVI) and the Bill and Melinda Gates Foundation has observer status

19. U.S. Department of States, U.S. Agency for International Development and U.S Department of Defense (2018), Framework for maximizing the effectiveness of US Government effort to stabilize conflict affected areas.

slightly different visions depending on which department took the lead in writing the strategic framework.²⁰

Finding 7: G7 members focus on solving governance problems to address state fragility.

When we look more specifically at the strategies of donors with respect to fragile states, almost all G7 members emphasise **good governance** as the chief means of addressing fragility (Japan, Germany, France, the United States, and Canada). France,²¹ for example, has focussed on peacebuilding, state-building and democratic governance (page 16), within a comprehensive approach linking up humanitarian concerns, development, diplomacy, and defence in a continuum (p. 23). The same holds for the U.S.,²² through the notion of “self-resilience”. U.S. aid aims to advance the United States’ fundamental values of freedom, democracy, and the rule of law. For Germany, stabilisation and peace are long-term objectives that also require partner countries’ ownership and good governance, with a focus on basic social services provision (p. 46) and human rights protection (p. 51). For Japan,²³ counter-terrorism, humanitarian assistance, and improved governance work together towards national interest. In the United Kingdom, the Department for International Development (DFID) first of all considers fragility as a threat to poverty reduction. The security threat comes second. Good governance also ranks among DFID’s top aid priorities. For Canada, the development objective along with humanitarian assistance and social services provision is “democratic governance and institutions, the respect and promotion of diversity, inclusion, human rights and the rule of law”, particularly in fragile states. Canada describes these objectives as “hallmarks of the way of life in Canada”. So, too, are inclusive and accountable governance, as well as a dynamic and engaged civil society.

20. Indeed, slightly different visions emerge in the three following U.S. documents : i) U.S. Department of State, U.S. Agency for International Development and U.S. Department of Defense (2018), Framework for maximizing the effectiveness of U.S. Government efforts to stabilize conflict affected areas, ii) U.S. Agency for International Development (2019), USAID policy Framework: Ending the Need for Foreign Assistance and iii) U.S. Department of State, U.S. Agency for International Development (2018), Joint Strategic Plan FY 2018-2022, February 2018.

21. Ministère de l’Europe et des Affaires étrangères (2018), Prévention, résilience et paix durable, 2018-2022, Approche globale de réponse à la fragilisation des États et des sociétés, MEAE/DGM.

22. U.S. Agency for International Development (2019), USAID Policy Framework: Ending the Need for Foreign Assistance.

23. Japan MOFA (2017), Priority Policy for Development Cooperation FY2017.

Two countries highlight the need to promote **inclusive growth** in fragile states, namely the United States and Canada. The Report to Parliament about Canada’s official development assistance often uses the term “growth that works for everybody”. Canada's vision is summarised in this sentence: “Sustainable and inclusive economic growth is fundamental for reducing poverty and achieving broad-based prosperity, peace and security. Canada focuses on empowering the poorest and most vulnerable—including women and youth—to share in the benefits of growth. This helps to reduce poverty, inequality and marginalization” (Government of Canada, p. 127). For the United States, “Strategic USAID assistance can support country partners more effectively in overcoming barriers to sustainable economic growth, inclusive development, democratic governance, and in building human and institutional capacity across sectors” (USAID, p. 8).

Finally, only one country, Canada, explicitly highlights its role in helping fragile countries **adapt to climate change**, even though almost every country alludes to this challenge in parts of their strategy documents. Several times in its strategy, Canada highlights that supporting climate change adaptation and mitigation improves the lives of vulnerable populations in developing countries. With its objectives of 100% compatibility with Paris Agreement, France (AFD) set up climate change adaptation and mitigation as a common concern cutting across its entire portfolio.

An empirical analysis of vulnerability concerns across G7 ODA spending

By targeting economic, social and environmental vulnerabilities, and governance weaknesses, cooperation policies can provide a relevant response to problems of inequality between countries. They can thereby coordinate the means of addressing within-country inequality.

The following statistical analysis aims to measure the importance that each donor, particularly those in the G7, attaches to the three dimensions of vulnerabilities in its allocation of development assistance.

The purpose is twofold. It aims to reveal how donors geographically allocate aid (de facto or intentionally), and to compare the stylised facts then inferred through their discourses, described in the previous section.

Model

Following Amprou et al. (2007), Guillaumont Jeanneney and Le Velly (2010), we consider the following model, which, for each donor, reveals the importance of a given criterion in its allocation of aid. The comparison of the score obtained by each donor for a specific criterion makes it possible to assess the relative preference of a donor for this criterion.

$W_{ij} = A_{ij} / A_i$ with A_i the total gross ODA paid by donor i , A_{ij} the gross ODA paid from donor i to recipient country j ^{24,25}

$X^*_i = \sum W_{ij} \cdot X_j$ with X_j the level of the criterion X of the receiving country j , and X^*_i the score reflecting the selectivity of donor i 's assistance for criterion X .

²⁴ For bilateral donors, the analysis focuses only on their bilateral ODA, and only when the recipient country is identified. This effectively excludes “regional aid” and “geographically unspecified aid”. The results presented were calculated on the 2016 ODA. The results for the year 2017 are similar.

²⁵ Source: OECD Development Assistance Committee (DAC).

Criteria

On the basis of the above, we use as allocation criteria *X* those used by the United Nations to determine the least developed countries (LDCs), namely: gross national income per capita (GNIpc), economic vulnerability measured by the Economic Vulnerability Index (EVI), and the level of human capital measured by the Human Capital Index (HAI). We also use an indicator of environmental and climatic vulnerability, namely FERDI's Physical Vulnerability to Climate Change Index (PVCCI),²⁶ and a measure of governance quality with the World Bank's WGI.²⁷

Results by indicators

Detailed results by bilateral (30 countries) and multilateral (34 institutions) donors are available in the appendix (for the year 2016). Our analysis focuses on the relative position of each donor with respect to each of the criteria.

Among the G7 members, the aid allocations of Canada, the United Kingdom, and the United States appear to be the most sensitive to the three LDC criteria²⁸, namely per capita income, economic vulnerability, and the level of human capital, unlike France, Japan, and Germany, whose relative positions are in the second half of the ranking. Italy is in the middle range. Among the top-ranked donors on these criteria are the IMF and the African Development Fund.

The G7 countries all appear to be relatively sensitive to climate change vulnerability in their de facto allocation to countries. It is interesting to note that the institutions specialised in this area (mitigation as well as adaptation) are unevenly distributed in the ranking: the Climate Investment Fund is 3rd out of 64, the Global Green Growth Institute is 29th, and the Adaptation Fund is only 39th.

26. Ferdi proposes an Index of Physical Vulnerability to Climate Change (PVCCI), measuring climatic shocks and countries' exposure to these shocks. The PVCCI is independent from the current policy, making this index a potential criterion for the geographical allocation of international funds for climate change adaptation. For more details, please refer to: www.ferdi.fr.

27. We used the average of the 6 components of the WGI database, namely "Voice and Accountability", "Political Stability and Absence of Violence", "Government Effectiveness", "Regulatory Quality", "Rule of Law" and "Control of Corruption": www.info.worldbank.org.

28. Considered separately

Finally, the results for the quality of governance criterion are characterised by a dispersion of the G7 countries in the ranking. France is the country whose allocation seems to be the most sensitive to this criterion, ahead of Japan. Germany is in the middle of the ranking, while Italy, Canada, the United Kingdom, and the United States are allocating their aid to countries with poorer governance. It is interesting to note that IDA (World Bank) is only 39th in this ranking despite an aid allocation formula in which the evaluation of national policies and institutions (CPIA) is critical.

Interpretation²⁹

Reading these results, it appears that, on the traditional ODA allocation criteria (LDC criteria and governance), two groups of countries stand out. On the one hand, Germany, France, and Japan, whose aid allocation seems to be less sensitive to the LDC criteria but more sensitive to governance, and on the other hand, Canada, the United States, and the United Kingdom, which have somewhat opposite results. Italy has an average profile on LDC criteria and is less sensitive to governance issues.

This dichotomy could be explained by the aid structure of these countries. Germany, France and Japan are the only G7 members with significant ODA in the form of loans (one-fifth for Germany, almost half for France and more than half for Japan). This form of development financing is generally less appropriate and less used in the poorest countries, which are often also those with the highest economic vulnerability and the lowest level of human capital. It is therefore not surprising to find donors with little or no lending among those whose allocation is sensitive to the criteria defining LDCs.

The same reasoning may explain the ranking of G7 countries for the governance criterion, since the countries with lowest borrowing capacities are generally those with poorer governance quality.

However, applied on grants only, the model provides fairly close results, except for Japan whose sensitivity to EVI is significantly

29. These results should also be interpreted according to the volume of ODA of each donor and also according to all the criteria.

higher³⁰. A more in-depth study of each country's actual allocations would be necessary to take the analysis further³¹.

By contrast, this group distinction does not apply to the criterion of vulnerability to climate change. The latter is not yet a major criterion for the allocation of international aid.

Inequalities

According to the above-mentioned linkage between vulnerabilities/governance and inequalities, each donor's involvement in addressing inequalities between countries and within countries can be seen in the geographical priorities shown for their assistance described above.

Because the interpretation is ambiguous and within-country inequalities cannot be a criterion of aid allocation, we simply mention here the result of applying the selectivity model to the Gini variable to reveal which donor, through its geographical allocation, targets countries with significant internal inequalities. It appears that Italy and France allocate relatively more aid to countries with high internal inequalities than other G7 members. Japan and Germany, however, appear to be less sensitive to this issue.

Sahelian priority

The second session of this paper mentions the Sahel Alliance as an interesting case in point for donor coordination, in this region of Africa that faces the most challenges regarding its vulnerability. Table 2 in the appendix ranks donors according to the share of G5 Sahel countries in their geographical ODA over the period 2015–2017. Three G7 countries stand out with a relatively higher percentage than the others: Canada (7.5%), France (6.2%), and Italy (5.6%). It should be noted that the United Kingdom's aid to the G5 Sahel countries is almost nil over this period, but the United Kingdom's accession to the Sahel Alliance in 2018 should lead to an increase in British aid to this region.

Furthermore, based on the country vulnerability indicators used in this paper, G5 Sahel countries are facing high economic, social,

30. Results not presented in annex but available from the authors.

31. To this end, it could be notably interesting to use available geocoded and subnational data to measure subnational allocation of aid to better understand why aid may not flow to poorer areas in partner countries. See for instance Hannes et al (2017).

and environmental vulnerabilities. They are in the second part of the ranking of developing countries for governance quality, and have a very low level of human capital. The Guillaumont, Jeanneney et al. report (2016) shows how these multiple vulnerabilities constitute a fertile breeding ground for insecurity in the Sahel and thus a major threat to the development of countries in the sub-region. Promoting equality of opportunity in Sahelian countries and populations requires significant support from donors to better address their vulnerabilities.





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