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The Impact of the Financial Crisis on Conflict and State Fragility in Sub-Saharan Africa

Issues Paper

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INTRODUCTION

Sub-Saharan Africa: Least integrated but the worst hit by the crisis

The global financial crisis was triggered by the bursting of the United States housing bubble in 2007 and the reverberations of this are now being felt throughout the world. The crisis was greatly exacerbated by the behaviour of banks which has inevitably made the position of any country that has borrowed money worse off. Sub-Saharan Africa was largely insulated from the initial stages of the financial crisis as the majority of the countries in the region are de-linked from the international financial markets. However, with the worsening of the global financial and economic crisis, the region as a whole has now been exposed to the downturn, and growth estimates have been continually lowered from 5 percent in 2008 to 1.7 percent in April 2009 (IMF, 2009).

Many Sub-Saharan African countries are dependent on foreign finance inflows and are even more dependent on commodity based export growth (Naudé, 2009). This has left them particularly exposed to shocks and World Bank economists are warning that although Africa is the least integrated region, it could actually be the worst hit (Devarajan, 2009a). Given that Africa is already the most conflict ridden continent in the world, an exacerbation of resource scarcity could increase conflict across the continent.

Emerging markets (e.g. South Africa, Nigeria, Ghana and Kenya) were hit first through their stock exchanges and financial links with other regions in the world; but the crisis has now affected the region's lower income countries (LICs) through indirect channels and because they are reliant on the stronger regional economies for trade and remittances.

In addition to financial shocks, Sub-Saharan Africa is also reeling from the food and fuel price shocks of 2007-08. Many countries in the region are already making unsatisfactory progress in their efforts to achieve the Millennium Development Goals; this "triple jeopardy" has thrown millions of households into poverty and will further hinder progress (World Bank, 2009).

Structure of the report

Whilst there is fairly substantial coverage in academic and policy literature on the impact of the financial crisis in Sub-Saharan Africa on economic growth and human development, there is a paucity of in-depth information exploring the conflict and fragility dimensions. It seems that information is still being gathered and more in-depth analysis will appear over the coming months[1]. Information on the impact of the crisis on conflict and fragility in the Horn of Africa region is even thinner on the ground. This report therefore draws on the available literature and reports in the media. Whilst there is no specific analysis on the Horn of Africa per se, it is assumed that lessons drawn from across the whole region can be applied there.

This report is structured in the following way:

- The first section explores the main transmission channels of the financial crisis in Sub-Saharan Africa, explains why fragile states are particularly vulnerable to shocks and then looks at some of the impacts of the crisis on human development and poverty;

[1] The EC is publishing its first European Report on Development in October 2009. It will focus on State Fragility in Africa and will be based on literature reviews and original research commissioned for the paper, including analysis on the impact of the financial crisis on fragility in Africa. See http://erd.eui.eu/

- The second section turns attention to the conflict and fragility impacts of the financial crisis, looking at empirical studies which suggest a direct relationship between financial crisis/recessions and the incidence of conflict. The threats emanating from the crisis which could further aggravate pre-existing conditions of fragility or fuel new instances of fragility are then reviewed;
- The third section attempts to identify those countries in Sub-Saharan Africa that are considered to be fragile (or on the verge of fragility) and vulnerable to the effects of the financial crisis. The assessment here should help identify those countries/regions that are the likely flash-points most in need of humanitarian and longer-term development assistance;
- The fourth section provides an overview of nine major donors' current policies, priorities, and activities in East Africa, focusing on the Horn of Africa. It includes information about the current global economic crisis where available, but most donors have not published specific policy statements responding directly to the crisis;
- The conclusion summarises the major points and offers some policy recommendations.

THE TRANSMISSION CHANNELS AND IMPACTS OF THE FINANCIAL CRISIS IN SUB-SAHARAN AFRICA

The main transmission channels of the financial crisis

This section draws on two reports published by the Overseas Development Institute (ODI), namely Velde et al (2009) and Massa and Velde (2008)[2].

Velde et al (2009) - in a ten-country study including Benin, Ghana, Kenya, Nigeria, Uganda and Zambia - found that the effects of the crisis were apparent in all countries but to different extents. Differences depended on countries' levels of openness, aid and remittance dependency, financial integration, economic and trade structures, and institutions.

They found that the main channels through which Sub-Saharan Africa is being affected are: declining private financial flows (portfolio investment flows, foreign direct investment and bond issuances); declining values of trade; decline in workers' remittances, which are down in nearly all countries; and possible declines in overseas development assistance (ODA). These channels are explored in further detail below:

Declining private financial flows:

The deteriorating economic and political environment of some countries in the region, as well as the increased volatility of global markets, have led to a reduction of portfolio inflows in those SSA countries with developed stock markets such as South Africa, Nigeria, Kenya and Uganda. Subsequently, the current financial crisis is likely to result in foreign investors reducing their investments in the region. A very visible manifestation of this has been the postponement, closure and cancelling of mining investments, which have had extensive media coverage.

Declining value of trade:

Many fragile and weak states are over-reliant on primary commodity exports whilst importing food and other commodities. In addition, those that are disproportionately dependent on oil, mineral and metal exports are particularly prone to the effects of the crisis. Trade in Sub-Saharan Africa had been steadily improving throughout the region since 2003 due to the continuous demand for natural resources from emerging economies but the financial crisis has reduced demand with a subsequent reduction in prices. The value of trade is actually projected to decline sharply by the end of 2009, with an expectation that oil exporters may suffer the most from these sharp declines.

Decline in remittances:

Remittances constitute an increasingly important source of external financing for LICs and are integral to poverty reduction at a household level. In the past, they have been relatively stable and even surpass present levels of ODA in some of the poorest and most fragile Sub-Saharan African countries. The World Bank now expects remittances to Africa, which had peaked at about $20 billion a year in 2008, to decline by 4.4 percent in 2009 (Ratha, 2009).

ODA declines:

Historically, aid has fallen when donor countries have been hit by recession (e.g. the Scandinavian countries in the early 1990's). Donors increased aid to Africa in 2008 but are

[2] A team at the ODI led by Dirk Willem te Velde has undertaken a considerable amount of work on the initial impacts of the financial crisis on developing countries. See http://www.odi.org.uk/odi-on/financial-crisis/default.asp

already $20 billion short of the commitments made in Gleneagles in 2005 and a number of donors now appear to be reneging on their commitments (Deverajan, 2009). For example, a recent analysis by Action Aid suggests that Italy could halve its aid in 2009, bringing it to 0.1 percent of GNP. In contrast, DFID is honouring its aid commitments and has committed half of its bilateral aid to fragile states. However, the falling value of the pound against the dollar and euro means that the actual value of aid has dropped when compared to 2008 values (Bertoli & Sanfilippo, 2009).

Decline in demand for services:
Financial, tourism and real estate services have contributed more than half of African growth in the last decade. However, levels of tourism and investment have already fallen and are likely to continue falling.

The vulnerability of fragile states and the costs of inaction

Many of the region's LICs are referred to as fragile or weak states, and are by their very nature vulnerable to exogenous shocks such as financial crisis or international conflict. The risks of the crisis are accentuated in these countries due to exceptionally poor performance in all aspects of state functioning. There is also a perilous risk that the financial crisis will erode many of the gains made over the past decade by post-conflict states in Sub-Saharan Africa leading to new instances of fragility.

Fragile states are vulnerable to financial shocks because of their dependency on remittances, very concessional financing, primary commodity export and overseas aid, levels of which have been affected by the financial crises (World Bank, 2009b).The impacts are further accentuated by poor governance, institutional corruption, repressive and corrupt security services and a high degree of patrimonialism. Therefore, institutional arrangements reinforce the conditions necessary for a crisis and state structures often lack basic functions needed for poverty reduction and human development. There is also often an inability or lack of political will to safeguard the security and human rights of their population (Jackson, 2009).

Increases in violence, conflict and social instability are more likely in countries with endemic conflicts and weak governments. However, as Desai (2009) states, financial crises and recessions can also create conditions in previously stable countries which are rife for political disputes and can lead to non-violent instability, government collapse, general strikes and political instability. Thus, whilst countries that are currently politically unstable and suffer from pre-existing conflictshave suffered severely, decreasing income streams could even push some previously stable countries towards fragility.

There are thus significant long-term risks associated with allowing countries that are emerging from conflict or fragility to relapse. Studies analysing the impact of growth accelerations and decelerations found that the effect of growth fluctuations on human development indicators such as primary completion rates, under-five and infant mortality and life expectancy are asymmetric in Sub-Saharan Africa. Put simply, the rate of decline is far greater during economic decelerations than the rate of improvement during accelerations. This suggests that it will be significantly more difficult for Sub-Saharan African countries to bring human development and economic growth back to pre-crisis levels if the impacts of the crises are not mitigated against (Arbache & Page, 2007; Conceição & Kim, 2009).

The impacts of the financial crisis on human development

The combined effects of the fuel, food and financial crises in fragile states are likely to be complex, multi-faceted and heterogeneous and the impacts will vary between and within countries. Within any given country, the impact of the crisis at a local level is dependent upon household wealth, demographics, education attainments and location. The impacts will not necessarily be confined to the poorest and not all of the poor will be affected; some will actually be protected by their very isolation from national and global markets (Ravillion, 2008a).

In fragile states, the inability of governments to provide basic services and goods coupled with increased unemployment, rising costs of living and increased poverty is likely to further aggravate pre-existing levels of violence, conflict, criminality and public unrest against already weak governments. There are also likely to be longer-term consequences which could seriously derail efforts towards achieving sustainable security and development.

Evidence from previous financial crises (including from Cote d'Ivoire, Ethiopia, Malawi, Tanzania, and Zimbabwe) shows that the number of poor people and the incidence of poverty increases dramatically. In the poorest developing countries, health and education outcomes deteriorate and can have a detrimental impact upon psychological well-being and community and intra-household conflict (Ravillion, 2008b). As Cord et al (2009) state, it is crucial for exposed countries to finance job creation, the delivery of essential services and infrastructure, and safety net programmes for vulnerable groups; fragile and weak states however, will not be able to raise the necessary funds.

Declining growth combined with pre-existing levels of state fragility and household poverty will leave many vulnerable and exposed to food, fuel and financial shocks. The combination of drops in real wages, unemployment and decelerating remittances (that have been integral to poverty reduction at the household level) are putting severe strains on poor households. In addition, slower economic activity results in less job creation, more unemployment and diminished public revenues. Mendoza (2009) suggests that households are affected in three ways: (1) unemployment and inadequate income for basic necessities; (2) triggering household coping strategies some of which may be detrimental to children; and (3) causing long-lived and possibly intergenerational consequences. Each of these is explored in further detail below:

Unemployment and inadequate income for basic necessities

The ILO have predicted that the number of working poor in Sub-Saharan Africa could increase by 36 million between 2007 and 2009 as a direct result of the crisis. There have been numerous reports in the media on the closure of mines, many a direct result of price collapses in cobalt, copper and other minerals. Prime examples include: mining closures in the DRC, which have resulted in the culling of over 200,000 jobs and an estimated 23,000 registered miners out of work in Zambia. Similarly, the closure of Mittel owned mines and problems in the rubber industry have contributed to possible 80 percent unemployment in Liberia. The collapse in prices has longer-term implications: it has halted new mineral prospecting that had been beginning to reveal valuable hidden sub-soil assets and may well have led to the future generation of jobs (Collier, 2009; IRIN, 2009).

Low economic growth in Sub-Saharan Africa is likely to result in lower agricultural investment and productivity and increases in the prices of the major cereals, which has further implications for food security and malnutrition. IFPRI projections predict that per capita calorie consumption in Sub-Saharan Africa will be 10 percent lower in 2020. Globally, 16 million more children will be malnourished in 2020 with Sub-Saharan Africa's share of malnourished children increasing from one fifth in 2005 to one fourth in 2020 (Braun, 2008).

Evidence from five countries, including Kenya and Zambia, shows that households have been coping with the crises by spending a greater share of income on food, buying lower cost items, reducing the quality and diversity of food, gathering wild foods, eating less or going hungry. Food intake in communities in Kenya was reported to have declined in quantity and in quality with women eating last and least. Children are particularly vulnerable to hunger and malnutrition and this is affecting their ability to learn and/or hindering them from attending school altogether (Hossain & Eyben, 2009).

Household coping strategies

Many household coping strategies are ineffective and the longer-term consequences on human development are a particular concern. For example, it is not uncommon for households to reduce food intake or pull out children from school and into paid employment to contribute to incomes. There have been reports of increased school absenteeism in Kenya and Zambia as children are too weak to travel to school or parents can no longer afford education fees (Hossain & Eyben, 2009; Haider, 2009).

Infant and child mortality rates are likely to increase as a result of the crises. World Bank projections predict that child mortality rates in Africa could rise by about 28 per thousand, which translates to over 700,000 additional babies dying before their first birthday (Devarajan, 2009b). Household coping strategies in response to reduced income and lower public spending can be particularly harmful to children; the inability to access essential health and welfare services contribute to foetal and infant malnourishment, which increases the risk of chronic infections and diseases later in life.

In addition to limiting food consumption, households may spend less on other essential health and welfare services such as clean water and sanitation. There are also concerns that with sustained low incomes, households may be forced to sell assets, including ones upon which their livelihoods are based. The future productivity of individuals and households, and the economy as a whole, can suffer as a result.

Long-term and intergenerational consequences

The impacts of short-term nutritional deprivations and ill heath can be detrimental to children's long-term physical and mental development and the risk is that poverty will be transmitted from one generation to the next and therefore perpetuate inter-generational poverty. The future productivity of individuals and households, and the economy as a whole, can suffer as a result.

THE CONFLICT AND FRAGILITY DIMENSIONS OF THE FINANCIAL CRISIS

There is little in-depth academic analysis on the impact of financial crises, past or present, on conflict and fragility in Sub-Saharan Africa, but it has been widely discussed in the media recently.

Ahead of the recent G20 summit, African leaders warned that parts of the continent could relapse into conflict if they are given support to recover from the financial crisis. A statement made by prominent researchers and policy-makers from Africa and Europe at a recent conference in Accra reinforces this argument:

> "…weak institutions can translate into high vulnerability and low resilience of markets, household and public finances to external shocks. Moreover, in countries with unstable "social contracts", any factor undermining the capacity of the state to meet citizens' expectations may trigger downward spirals of social disorders and conflict." (EC, 2009)

There is particular concern that should the crisis persist over one or two years, the danger of regime-threatening instability will increase dramatically.

The links between financial crises, reduced growth, conflict and instability: empirical evidence

An analysis of the available literature suggests that weak economies often translate to weak and fragile states and the presence of violent conflict, which in turn prevents economic growth.

In a body of work exploring the causality of civil wars in Africa, Collier & Hoeffler (2002; 2004) and Collier (2007) argue that the risk of war in any given country is determined by the initial level of income, the rate of economic growth and the level of dependency on primary commodity exports. They approximate that a typical LIC faces a risk of civil war of about 14 percent in any five-year period and halving the income of a country doubles the risk of civil war. For countries growing at 3 percent, the risk is cut from 14 to 11 percent whilst an economic decline of 3 percent increases risk to 16 percent.

Bloomberg and Hess (2002), in a study which encapsulates data taken from 152 countries between 1950 and 1992, argue that recessions play an important role in determining internal conflict, especially in Africa and for non-democratic countries. The linkages between internal and external conflict and prosperity are strong and mutually reinforcing: reduced levels of domestic economic activity tend to create incentives for increased external and internal conflict, which in turn reinforce low levels of domestic economic activity resulting in a 'poverty-conflict trap'.

Evidence on growth accelerations and collapses in Africa between 1975 and 2005 suggests that governance and conflict indicators are substantially affected by growth volatility. Specifically, Arbarche and Page (2007) argue that economic collapses are associated with minor conflicts, and that major conflicts hamper chances of growth. The World Bank's Country Policy and Institutional Assessment (CPIA) score, a broad measure of policy and institutional performance

– which includes indicators for political stability, government effectiveness, rule of law, and control of corruption – are lower during growth decelerations and economic collapses.

The main threats to stability

Across Sub-Saharan Africa, violence and social unrest could lead to a further eroding of confidence in already weak governments, putting into place a vicious cycle of instability and public unrest. The main threats are:

Decreased income levels, mass unemployment and the rising costs of living
There are concerns that increasing unemployment, especially amongst young men, could be directed towards governments. Combined with rising costs of living, there is a risk that unemployment could lead to violence, public unrest and criminality. In addition, the selling of assets could exacerbate conflict as people become desperate and run out of options.

In Sierra Leone, 60 percent of youths are unemployed and some experts argue that this is enough on its own to threaten stability (the 'angry and/or bored young men equals violence' thesis). Paul Collier, for example, has argued contentiously that rising unemployment in already fragile states can cause/exacerbate conflict due to comparative income opportunities for young men in labour markets as opposed to in rebel groups (Collier, 2007).

Rise in criminal activity
Increases in crime levels are related to unemployment and increasing living costs are a key issue, particularly for young people who are vulnerable to the compound affects of the food, fuel and financial crises. Instances of children robbing each other of food in schools have been reported as have instances of children trading sex for snacks in Kenya and Zambia (Hossain and Eyben, 2009). Unemployment may create a pool of people who are easily preyed on by criminal groups seeking recruits. The recent spate of piracy off the coast of Somalia for example, could be related to decreasing remittances, unemployment and the rising costs of living.

Increased government repressiveness in the face of unrest
Braun (2008) found that food insecurity has become a source of conflict in many countries with people turning to the streets in protest with many instances of the political unrest becoming highly violent. Governments on a number of occasions have dealt with public protest using excessive force and many who were claiming their right to an adequate standard of living have been killed and injured. Amnesty International (2009) for example, report that demonstrations against the sharp rise in living costs have taken place in Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Guinea, Mali, Mozambique, Senegal, Somalia and Zimbabwe.

Rising social and ethnic tensions
Arbache and Page (2007) argue that institutions in poor countries tend to be so strained that ethnic tensions and confrontational politics can get worse when competition for scarce resources increases. There have been some signs of increasing unrest due to socio-economic cleavages amongst religions and ethnic groups. In Nairobi for example, tensions have emerged between Christian and Muslim groups because of exclusionary feeding programmes in mosques (Hossain and Eyban, 2009).

Further decreases in the capacity of the state to provide basic goods and services

Fiscal pressures will mean that many governments are unable to provide the necessary social safety nets, services and infrastructure and countries that are suffering from low reserves may be soon unable to import food, fuel and medicine. A major concern is if governments are unable to pay their civil service and security forces; this leaves a power vacuum that is all too frequently filled by an agent of instability, either a transnational terrorist group or criminal activity such as drug trafficking (Jackson, 2009).

ASSESSING THE VULNERABILITY OF COUNTRIES IN SUB-SAHARAN AFRICA TO THE FINANCIAL CRISIS – WHERE ARE THE LIKELY FLASH-POINTS?

The following section attempts to identify those countries in Sub-Saharan Africa that are considered to be fragile (or on the verge of fragility) and vulnerable to the effects of the financial crisis. The assessment here should help identify those countries that are most likely to be in need of humanitarian and longer term development assistance. This is not an easy task since the full impacts of the financial crisis on fragile states in Sub-Saharan Africa are yet to be seen. Whilst it is already clear that net private capital flows to fragile states have dropped (the recent mine closures in the DRC and Zambia provide tangible evidence) further monitoring is required to assess values of trade, migrants' remittances, overseas development assistance budgets and foreign reserve levels to identify the impacts in fragile countries and experiences of people living within them.

Therefore this section attempts to build a picture by: (1) conducting a quick assessment from the literature of the specific characteristics that are likely to make countries vulnerable; and (2) using existing measures of state fragility (which pre-dated the financial crisis) and an assessment of the economic vulnerability of LICs to identify the flash-points.

A quick assessment on vulnerability from the literature

From the literature, it is apparent that the countries in Sub-Saharan Africa particularly vulnerable to the crisis are likely to be:

- **Countries exporting products whose prices are highly affected or subject to fluctuations.** Those that are heavily dependent upon oil, metals and minerals for exports and imports will be particularly at risk. Naudé (2009) lists Sub-Saharan Africa's current oil exporters as Angola, Chad, Equatorial Guinea, Gabon, Nigeria and Sudan whilst those most likely to be affected by declines in the prices of mineral and metals are Botswana (diamonds), DRC (copper), South Africa (gold) and Zambia (copper).The drop in commodity export prices has resulted in a loss of foreign exchange, deteriorating current account balances, declining reserves and a reduction in government revenues. Countries that already suffered from low reserves and fiscal deficits will be hit especially hard as governments become unable to cope with the growing needs of their populations. Fragile states are particularly vulnerable because many are highly dependent upon primary commodity export for income whilst importing food and other commodities.
- **Countries which are dependent upon remittances.** This can constitute an important income stream in fragile countries at the household level and remittances from workers based in developed countries and in other emerging markets in Sub-Saharan Africa are declining.
- **Countries heavily dependent upon foreign direct investment and portfolio inflows**, particularly emerging economies in Sub-Saharan Africa and those with stock markets.
- **Countries that are dependent upon aid.** Three sets of conflict-affected and fragile countries require particular attention: (1) countries with projected decreasing aid levels such as Chad, Eritrea and Guinea; (2) countries with volatile aid such as Burundi, DRC, Eritrea, Guinea Bissau, Liberia and Sierra Leone; (3) countries with a limited number of

donors, including Comoros, Djibouti and Equatorial Guinea, which are each dependent on one donor for at least 50per cent of their aid.

- **Those that specialise in the affected service industries** such as finance, tourism, air travel and real estate.

Assessing vulnerability to the crises: a function of state performance and vulnerability to economic shocks

The following section attempts to identify those countries considered to be most vulnerable to the financial crisis where pre-existing state fragility and conflict could be further aggravated. This is done by using the *Brookings Index of State Weakness in the Developing World* and an IMF assessment of the vulnerability of developing countries. The former provides an assessment of state function and the latter provides an assessment of economic vulnerability to shocks. Those countries which are defined as 'critically weak' in the Brookings index and highly vulnerable to the financial crisis in the IMF assessment are likely to need priority attention.

Brookings Index of State Weakness in the Developing World

The index serves as a useful tool for policymakers because it casts its analytical lens beyond conflict, governance and human development to all the core areas of state function.

The Brookings Index defines a weak state as:

> "a country 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". (Rice and Patrick, 2008: 5)

With this definition, the authors aim to capture government responsibilities which are commonly considered as the core functions of statehood. The index assesses the performance of 141 developing countries in four 'baskets', each of which consists of indicators that are proxies for core aspects of state function:

- **Economic** indicators assess a state's ability to provide a stable economic environment that facilitates sustainable and equitable growth;
- **Political** indicators assess the quality of a state's political institutions and the extent to which its citizens accept as legitimate their system of governance;
- **Security** indicators evaluate whether a state is able to provide physical security for its citizens. This basket includes indicators for intensity of violent conflict and its residual effects, incidence of coups and the scale of human rights abuses;
- **Social welfare indicators** measure how well a state meets the basic human needs of its citizens, including nutrition, health, education, and access to clean water and sanitation.

In this ranking, countries in the bottom quintile are considered **critically weak states** and are the least capable of performing in the four functions of government. The three weakest states in the world (Somalia, Afghanistan and the DRC) are deemed **failed states** and perform considerably worse than other weak states. Countries in the second quintile are classed as **weak states** and tend to perform poorly in some of the four functions. A number of countries that perform better than the countries in the bottom two quintiles are considered as **states to**

watch because they perform very poorly in at least one of the four government functions and therefore have the potential to exhibit increased fragility.

IMF vulnerability assessment of developing countries
This assessment analyses the vulnerabilities of LICs to the financial crisis on the basis of GDP growth projections and the simulated vulnerability to shocks such as: the balance of payments effects of lower oil prices; commodities and food; lower demand for manufacturing exports; and lower financial inflows[3]. On this basis, a country is considered to have a high vulnerability if a sizable decline in GDP growth is projected along with significant vulnerabilities in shock simulations. Using this method, about 30 percent of LICs are highly vulnerable to the consequences of the financial crisis and about half of these are located in Sub-Saharan Africa (Gamo, 2009).

The likely flash-points: When pre-existing state fragility and weakness is compounded by the risk of economic vulnerability

Those countries which are deemed to be 'failed' or 'critically weak' in the Brookings index and also considered to have 'high' or 'medium' vulnerability to the financial crisis in the IMF assessment are likely to be at risk from an increasing incidence of fragility and conflict and experience a severe decline in human development indicators. In addition, it is also sensible to include those countries which the Brookings Index classifies as 'states to watch' but are also considered to have high or medium vulnerability. These are relatively stable countries but exhibit the potential to degenerate into a condition of fragility. Figure 1 below provides a graphical representation of the assessment and a table containing the data from both sources is included in Annexe 1.

The results of the assessment are considered below and combined with further commentary on the individual countries and regions gleaned from the literature and from expert input[4]. Much of the socio-economic data below has been taken from the Africa Economic Outlook website, which contains reliable socio-economic data on the majority of Sub-Saharan African countries.

Horn of Africa and Sudan
The entire Horn of Africa region could well be on the brink of a regional crisis. The assessment shows that Somalia (which appears at the bottom of the Brookings Index as a failed state) and Sudan are extremely vulnerable. Eritrea and Ethiopia are also highly vulnerable whilst Djibouti appears less prone to effects of the crisis.

The financial crisis is threatening to exacerbate levels of hunger and desperation across the region caused by a combination of drought, poor seasonal rains, conflict, and the high cost of food. Given the existing state of criminality, gangs and international conflict actors across the region, but concentrated in Somalia, there is also a risk that increasing economic pressure will not only push more people into criminality and possibly radicalisation, but also that these networks will spread within the region, beyond the regional border into stable countries such as Kenya, and into international territory through activities such as piracy.

[3] The methodology used and a detailed specification of the shocks can be found in Gamo (2009)
[4] See http://www.africaneconomicoutlook.org/

Figure 1: Potential flash-points in Sub-Saharan Africa

(Developing using data from Rice and Patrick (2008) and Gamo (2009))

Risk of vulnerability to the financial crisis

	Critically Weak	Weak	States to watch
High	Somalia (1)*† Congo, Dem. Rep. of (3) † Burundi (5) Sudan (6) Central African Rep. (7) Liberia (9) Côte d'Ivoire(10) Angola (11) Nigeria (28)	Zambia (32) Mauritania (37) Djibouti (38) Lesotho (53)	Ghana (84)
Medium	Sierra Leone (13) Eritrea (14) Chad (16) Ethiopia (19) Congo, Republic of (20) Niger (21) Guinea (23) Rwanda (24) Togo (26)	Cameroon (29) Comoros (31) Mozambique (39) Burkina Faso (44) Malawi (46) Madagascar (49) Tanzania (55)	São Tomé & Príncipe (61) Benin (71)
Low	Guinea-Bissau (18) Uganda (27)	Kenya (50) Gambia, The (51) Mali (52)	Senegal (68)

Degree of State Weakness

Note: Bracketed numbers indicate the ranking on the Brookings Index of Weak States.
† The bottom three ranked countries in the Brookings Index are classified as 'failed states'. The DRC and Somalia fall within this category.
*Data from Somalia is not included in the IMF assessment, presumably due to the lack of available data. However, it is the weakest state in the Brookings Index and is the worst performer in their economic basket. It can therefore be assumed that Somalia is highly vulnerable to the financial crisis.

Sudan has been experiencing an episode of positive growth but this is expected to slow down from 8.4 percent in 2008 to about 5.0 percent in 2009. Armed conflict and political instability due to the Darfur crisis and North-South tensions have contributed to slow economic and social development. Lack of good governance has discouraged FDI and is a major concern, with Sudan ranked as the sixth most corrupt country in the World scored 1.6 on the Corruption Perceptions Index (CPI)

Djibouti is a relatively stable country within an otherwise turbulent region. Growth doubled over a period of four years, rising from an estimated 5.9 percent in 2008 to an expected 6.5 percent in 2009. However, households in Djibouti have been hit hard by the food crisis and droughts that have affected the region as a whole.

Attention should also be given to Kenya, despite it not appearing in this assessment as a priority. The Government of Kenya declared a national food crisis in January 2009 as a result of high food prices and drought. The arid North-East part of the country which borders Somalia has been severely affected by the combination of drought and a rapidly expanding refugee population[5].

Central Africa

Central Africa is another likely hot-spot and the problems may make this region even more of a flash-point than the Horn of Africa. The DRC (which is also deemed a failed state by the Brookings Index), Burundi and the Central African Republic are all extremely vulnerable, whilst Chad and Rwanda are highly vulnerable.

The DRC could be an engine of instability due to deteriorating economic growth and a huge humanitarian and security crisis in the east of the country brought on by armed conflict. This is expected to have a considerable impact not only on the government's fiscal position and social sectors. As documented in this report, mining and infrastructure which are important drivers of growth have been severely affected. The World Bank reports that export revenues will decline significantly due to lower commodity prices, and the current account surplus, sustained by booming commodity prices, is projected to turn into a deficit in 2009-10 (Mushobekwa, 2008). Foreign aid is likely to be affected as well.

The lack of state control over the security of large areas of the DRC, particularly in the North and East, also provides a geographical area wherein 'loser' groups from neighbouring countries could exacerbate instability in similar ways to the LRA in Kivu and former Rwandan troops in the Goma area.

Burundi is facing huge challenges in order to tackle widespread poverty, not only because certain social infrastructures have been destroyed during the conflict, but also because of structural constraints. Burundi's economy is very vulnerable to external shocks, largely due to its heavy dependency on coffee exports. Its rate of GDP growth is expected to fall due to a sharp drop in coffee from 3.2 percent in 2008 to 2.9 percent in 2009. Elections are due to take place in 2010, but the slow pace of implementing the agreements and an increasingly tense political climate are having an impact on the country's social and political stability.

CAR remains a fragile state with an unstable political climate and a lack of central government control in some areas around the country. It is behind schedule on most of the Millennium Development Goals (MDGs) and it seems unlikely that they will be achieved by the year 2015.

[5] See http://www.savethechildren.org.uk/en/32_7728.htm

Life expectancy at birth is estimated at 47 years, about 7 years below the African average, and the prevalence rate of HIV/AIDS, which was 10.8 percent for persons aged 15 to 49 in 2007, is the highest in the CEMAC zone. CAR is also suffering from a decrease in exports due to the poor performance of the wood and diamond industries, which were hit hard by the financial crisis.

Chad, ranked 170th among 177 countries in the Human Development Index, is disproportionately dependent on oil exports. In 2008, GDP rose by only 0.2 percent owing to the poor performance of the oil industry, and this will be further exacerbated by a decrease in demand and in world market prices. Ongoing conflicts between government forces and rebel groups have also had an impact. AIDS remains a substantial threat, with a prevalence of about 3.5 percent of the national population. Reduced foreign aid, increased social needs, and the rising cost of living mean that the disease is more pronounced across all segments of the population.

Rwanda is particularly exposed due to its limited trade diversification and dependence on ODA, which finances almost 50 percent of its national budget.

Western Africa
Liberia, Cote d'Ivoire and Nigeria are extremely vulnerable to the crisis with Sierra Leone, Niger, Guinea and Togo not far behind. Liberia's annual growth reached 12 percent at its post-war peak but has dropped drastically to 5 percent in 2008. Experts fear that the economic crisis could erode many of the gains made in post-conflict Liberia and Sierra Leone over the past decade. Unemployment rates in both countries (80 percent unemployment in Liberia and 60 percent unemployment in Sierra Leone amongst youths) could threaten stability (IRIN, 2009).

The ECOWAS community is integrated and inter-linked. The Mano River region which includes Sierra Leone, Liberia and Guinea, is an obvious area of potential conflict, given that the international trade in diamonds could provide an easy way to circumvent formal governance arrangements if security and policing cannot be carried out effectively. The danger of a relapse in Sierra Leone and Liberia is greatly increased by any faltering in the international support given to both countries, particularly to their governments and security institutions, but also by the lack of economic development to complement increased security.

Nigeria has a different set of problems. As the most populous country in Africa, there is always demographic pressure on finances, but the situation there is exacerbated by regional differences in ethnic but also economic terms. Governance, fiscal policy and the distribution of oil revenues are the critical factors in maintaining stability in Nigeria. From an international security viewpoint, Nigeria remains a critical litmus test of international intervention and the sustainability of an African state, particularly one in which the north is predominantly poor and Muslim whilst the South is predominantly rich and Christian. Oil revenues and corruption greatly exacerbate these issues through corruption and the incentive to misgovern.

Southern Africa
The dependency of Angola on oil means that declining oil prices lower government revenues and national income. Subsequently, lower government revenue implies lower government expenditures, the main source of demand for the non-oil sector (Gazel, 2008). An additional issue with Angola, which was made clear by the war, is that a government could exist in the capital city and more or less ignore the poor agricultural hinterland as long as they controlled the oil revenues. Again, oil and the governance of oil revenues remains a critical issue with the need to subsidise non-oil poor areas without losing revenue to corruption within Luanda.

OVERVIEW OF DONOR ACTIVITIES IN THE HORN OF AFRICA

This section provides an overview of nine major donors' current policies, priorities, and activities in East Africa, focusing on the Horn of Africa. It includes information about the current global economic crisis where available, but most donors have not published specific policy statements responding directly to the crisis. It highlights the main themes of donors' agendas, but different types of policy documents (e.g. country plans, thematic strategies, white papers, etc) are organised differently and are not always readily comparable.

Most donors place economic growth, especially through promoting international (including regional) trade, at the top of their agendas. Other key themes include peace and security, climate change and environment, infrastructure (particularly energy-related), agricultural development, governance, basic needs (water, sanitation), social services (health, education), human rights, and gender equality. Most donors aim to support regional integration for economic development and for peace and security, and support regional institutions such as the AU, NEPAD, and regional economic blocs. Most also emphasise support for global and non-African multilateral institutions such as the UN and the EU.

Donor priorities and activities vary significantly from country to country in response to local needs, circumstances, and capabilities. Donors' activities also sometimes reflect their own particular national expertise or foreign policy interests.

African Development Bank

The African Development Bank (AfDB) has prepared a policy paper describing its responses to the global financial crisis, focusing on proposals for financial interventions including a new Emergency Liquidity Facility and a Trade Finance Initiative.

AfDB has recently produced country strategies for Eritrea (2006) and Djibouti (2007). The most recent available country strategy for Sudan (not reviewed here) covers 1999-2001, and no papers were available for Ethiopia or Somalia.

In Eritrea, current AfDB financing supports agriculture (39 percent), education (24 percent), public utilities (11 percent), and multi-sector projects (27 percent). The 2006-07 strategy focused on integrated rural community-driven development, rural roads infrastructure, and community-driven social development, aimed at enabling rural populations "to access essential social services, means of production and income generating activities." The border conflict with Ethiopia drained skilled labour, destroyed essential infrastructure, and displaced people, and a stable, permanent resolution is critical.

In Djibouti, AfDB currently has a portfolio of activities in the energy sector (41 percent), social sector (38 percent), transportation (bulk cargo terminal) (16 percent), agricultural sector (4 percent), and multisectoral activities (3 percent). AfDB's strategy for 2007-2010 will focus on integrated local development and good governance, through projects that include a drainage project improving sanitation in Djibouti City, an urban poverty reduction support project, and institutional support for good governance.

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Denmark

The Danish Foreign Ministry reports that Denmark's 2007 Africa strategy is still the basis for the country's engagement in Africa, and there has not yet been a new strategy produced specifically related to the global economic crisis. However, last year the government launched an Africa Commission to consider how African countries could benefit from globalisation and to make policy recommendations regarding youth employment and job creation, and the Commission's report takes account of the economic crisis. (Birger Fredrikson, personal communication)

The Danish government's 2007 overall strategy for Africa has three broad objectives: to improve Africa's inclusion in globalisation, to increase regional integration and strengthen cooperation between Africa and the EU, and to provide more assistance for young people, gender equality and employment. The globalisation agenda aims to help African countries participate in international affairs on equal terms with other countries, be more involved in global cooperation on climate change, and tackle the causes of forced migration. Regional integration efforts will include: strengthening African regional organisations including the AU, NEPAD, and African security architecture; promoting a "development-friendly outcome" from the WTO Doha Round and supporting economic partnership agreements; encouraging Danish companies to invest in Africa; supporting regional organisations' capacities to deal with crises and conflict including contributions to peace-keeping, peace-building, and security sector reform; and providing humanitarian aid in crisis situations. Improving assistance overall will entail spending two-thirds of the Danish aid budget on Africa, increasing spending and encouraging other donors to do likewise, focusing efforts on fewer but larger initiatives, promoting good governance and combating corruption, promoting human rights and gender equality, supporting business development and job creation in rural districts and towns, and improving support to education and the fight against HIV/AIDS.

Last year's Africa Commission report focused primarily on youth employment and job creation and incorporates discussion of the impacts of the global economic crisis. The Commission highlighted five key areas of recommendations: (1) benchmarking competitiveness and focusing on constraints that prevent African businesses from growing through exports; (2) scaling up access to finance and capacity development for small and medium-sized enterprises and providing a predictable regulatory framework; (3) increasing focus on young entrepreneurs as drivers of change and promoting entrepreneurship as a viable pro-poor development strategy; (4) increasing sustainable energy production, distribution and productive use in a cost-effective and climate-friendly manner; and (5) promoting secondary and higher education and research based on the requirements of the private sector.

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European Commission

The European Commission is currently engaged in an exercise to assess the effect of the economic crisis on partner countries and consider possible financing or other action, but this exercise will probably not be finalised before the end of August at the earliest. (Tom Vens, personal communication)

The EC's regional strategy for Eastern and Southern Africa and the Indian Ocean is organised around two focal areas and provides a budget of €645 million over five years (2008-2013) for the regional programmes.

The first focal area, regional economic integration, will take 85 percent of the resources allocated to the region and "aims to support deepening regional economic integration by fully implementing the Customs Unions and moving towards common internal markets (and eventually monetary unions), covering sub-regions of the whole ESA-IO region, through the implementation of the necessary regulatory framework and financial support for the trade liberalisation process and its possible economic and fiscal costs. It will also aim to leverage funds for trade-related infrastructure to deepen regional integration and ensure the sustainable management of the region's natural resources, as a core asset for livelihood systems, so that it provides a basis for sustainable food security."

The second area, regional political integration/cooperation, will use 10 percent of resources, and "aims to strengthen the political integration/cooperation process in the ESA-IO region by promoting a coherent regional perception of the concept of good governance, establishing regional mechanisms for early warning, conflict prevention, management and resolution, and post-conflict reconstruction, and overall capacity building in the areas of peace and security." The remaining 5 percent of resources will be put towards a variety of other initiatives including institutional capacity building, support for the IRCC, involvement of non-state actors, and others.

The country strategy for Ethiopia allocates a budget of €644 million for the period 2008-2013. It focuses primarily on three sectors: transport and regional integration; rural development and food security; and macroeconomic support and governance. Additional programmes include work to restore and conserve Ethiopia's cultural, biological and environmental heritage and a de-mining action.

The strategy for Somalia allocates €212 million for the period 2008-2013. The programme of work is organised around the following sectors:

- governance, including security, reconciliation, effective democratic governance, and support for non-state actors (28 percent)
- education, including improved administration, teaching, access, and participation by disadvantaged groups (26 percent)
- economic development and food security, including institutional strengthening for policy development and legal and strategic frameworks, technical assistance, sustainable management of natural resources, and livelihood recovery and food security (26 percent)
- other activities and reserves (20 percent).

The EC's strategy for Djibouti allocates €40.5 million for the period 2008-2013. The majority of this funding (85 percent) will be allocated to water, sanitation, and energy projects, using project funding and sector budget support arrangements. Other projects will account for 15 percent of expenditure: decentralisation, support to non-state actors, technical cooperation, other regional programmes, migration, and reserves.

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Norway

In 2009, Norway allocated 1 percent of its GNI to international development and identified climate change, violent conflict and lack of capital as the most important challenges in the fight against poverty. The five general areas where it is felt that Norway can contribute most are: climate change, environment and sustainable development; peacebuilding, human rights and humanitarian assistance; oil and clean energy; women and gender equality; and good governance and anti-corruption.

Norway's main priorities in Africa are given in a 2008 document, *Platform for an integrated Africa policy*. The main initiatives under the various policy headings in this document are:

- *Equitable and sustainable development*: promote private sector development and trade, support special and differential treatment for African countries in the Doha Round, support good governance and anti-corruption, strengthen institutions for regional trade, foster women's participation in trade, share expertise in managing oil and gas revenues for improved social welfare, support the Extractive Industries Transparency Initiative, support countries in documenting coastal shelf limits, promote corporate social responsibility, support agricultural development, share expertise in infrastructure development (particularly power, water, roads, and ports), and cancel debts of the poorest countries.
- *Climate change, energy, and the environment*: fund climate change mitigation and adaptation, ally with African countries in climate negotiations, support sustainable forest management, develop renewable energy resources, assist in fisheries management, and support comprehensive efforts for sustainable management of natural resources.
- *Peace and security*: support conflict resolution (particularly in Sudan and the Horn of Africa), support UN and AU efforts in peace and security, support post-conflict reconstruction and stabilisation, support security sector reform including training security forces and reintegrating ex-combatants, negotiate an international arms treaty and strengthen the UN programme on small arms and light weapons, increase women's participation in conflict resolution and peace processes, and help children affected by armed conflict.
- *Democracy, human rights, and gender equality*: strengthen democratic institutions (including parliaments, judicial systems, ombudsmen, human rights commissions, electoral commissions, the press and media, and civil society), fight corruption, encourage the African Peer Review Mechanism, support UN Security Council powers to respond to human rights violations, support international tribunals and prosecution of human rights violators, combat human trafficking, support human rights defenders, increase women's participation in political life, and combat female genital mutilation.
- *Political dialogue and development cooperation*: support UN reform and increase the effectiveness and coordination of UN agencies, support greater influence for poorer countries in the World Bank and IMF and avoid privatisation of services being a prerequisite for assistance, support the AU (particularly in peace and security) and NEPAD, increase support for regional cooperation organisations, continue bilateral foreign minister meetings, participate actively in the Africa Partnership Forum, support the Foreign Policy and Global Health Initiative, continue other bilateral cooperation, prepare a new white paper on international development policy, cooperate with governments and charitable foundations on health-related MDGs, and strengthen the international humanitarian response system.

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Sweden

Sweden's latest strategy for Africa was adopted by the Swedish government in March 2008. Highlights of Sweden's policy priorities within each of the main policy headings of the strategy are:

- *Trade, regional integration and business development*: promote open trade under equitable terms and conditions, support regional integration and harmonisation, promote a better business and investment climate, promote diversification and reduced dependence on raw materials, support industrialisation and development of local capital markets, strengthen the judicial sector and develop stable and harmonised rules for trade and business, combat corruption and organised crime, improve dialogue between government and enterprise, and support collaboration between different areas of Swedish and African society.
- *Agriculture*: support sustainable agriculture and reforms aimed at boosting productivity and ensuring a secure food supply while combating desertification and the depletion of farming soil, support local processing of products, seek to improve the role and opportunities of women, promote free trade and reduced protectionism, and support sanitary and phytosanitary standards.
- *Energy and infrastructure*: support investment in energy efficiency and renewable energy, encourage oil- and gas-producing countries to widen development-oriented use of these revenues, emphasise transparent and responsible governance and stable and effective regulations for investment, support cooperation between private and public Swedish and African actors, provide for investment in roads and waterways, and support other projects on transport, water and energy infrastructure.
- *Research*: support research and capacity building, support regional and pan-African research bodies, and support information and communications technology (ICT) focusing on research- and education-related activities.
- *Peace and security*: support the development of the African security architecture, support the UN and EU in peacekeeping and security policy, promote the obligation-to-protect principle, emphasise gender equality and child rights perspectives, promote closer interaction among policy areas (security, development, international law and human rights), increase cooperation on links between conflict and environment, support prosecution of serious abuses including genocide and war crimes, strengthen capacity of African states to prevent terrorism, and develop cooperation on conflict, crisis management, and security capacity.
- *Democracy and human rights*: promote democratic development, oppose all forms of discrimination in the enjoyment of human rights and address violations in bilateral and multilateral forums, ensure that rights and democracy inform EU contacts with Africa in all policy areas, promote representative and efficient parliaments, promote respect for democratic principles and human rights, press for the abolition of capital punishment, and support cooperation with national, EU, and UN human rights bodies.
- *Gender equality*: increase support for equality in multilateral and bilateral dialogues, work to implement Security Council Resolution 1325, support African organisations and networks focusing on women's enjoyment of human rights and participation in public processes, highlight progress towards women's rights, seek to ensure that progress is consolidated and commitments honoured, and support instruments for better health particularly related to sexual and reproductive health.

- *Environment and climate*: Support capacity building to help countries deal with global warming, focus more attention on climate, intensify cooperation towards an efficient international climate regime after 2012, help develop the Clean Development Mechanism, and facilitate the transfer of environment-friendly, low-energy technology and renewable energy. More broadly, prioritise initiatives for sustainable use of forest resources, support UN goals on access to clean water and sanitation, assist countries to meet commitments under international environmental conventions, support of national governance and policy development, and support increased local processing and sustainable natural resource use.
- *Development opportunities for the individual*: support a range of development activities focusing on health, education, migration and asylum, and culture.
- *Trade and economic cooperation*: support Swedish-African economic and commercial cooperation, develop country-specific frameworks for development and business promotion, develop closer interaction with Swedish enterprise, support Swedish enterprises in involving immigrants from Africa, promote corporate social responsibility, and produce an action plan for the promotion of Swedish development and investment in Sub-Saharan Africa.

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United Kingdom

DFID has not yet published a policy specifically responding to the current global economic crisis, although there has been some internal thinking on strengthening Africa's capability to mitigate the impact of crisis. DFID has produced a policy paper on *Building the State and Securing the Peace* which describes DFID policy on peacebuilding and conflict resolution; this paper draws on African experience and provides many examples from Africa, but takes a strategic view and does not describe details of current activities in Africa. The most recent available country strategy plans for Ethiopia, Somalia, and Sudan are from 2003-2004 and have not been summarised for this report, but are available at http://www.dfid.gov.uk/Where-we-work/Africa-Eastern--Southern. The UK Government has also issued a White Paper in 2009 laying out overall priorities for DFID. (Patrick Merienne, Mark Segal, and Jeremy Stickings 2009 personal communications)

DFID's Emerging Policy Paper *Building the State and Securing the Peace* (June 2009) outlines a strategic framework and operational implications for DFID's engagement in situations of conflict and fragility. DFID's integrated approach to state-building and peace-building promotes inclusive political settlements. State-building is about the relationship between state and society, involving political settlement between elites, state survival functions (security, revenue, rule of law), and action on public expectations such as service delivery. With time, political settlements can broaden beyond elites to win and maintain the consent of other groups. Peace-building involves supporting inclusive peace processes and political settlements, building mechanisms to resolve conflict peacefully, and addressing causes and effects of conflict. Donors do not 'do' state-building or peace-building, as these are internal, long-term, nonlinear, and continually negotiated processes, but donors can influence change, positively or negatively.

The paper recommends that DFID should:

- combine short-term, technical support (such as peace negotiations or constitutions) with long-term approaches that strengthen political institutions, including parliaments and political parties;
- recognise that support to state survival functions is not just a technical fix, but has implications for the political settlement;
- not make assumptions about the expectations of different groups in society;
- prioritise and sequence activities with the importance of the political settlement in mind;
- tailor support to service delivery so as to address the causes of conflict and fragility and avoid undermining long-term state-building;
- stay engaged for the long-term;
- take a regional approach;
- adapt aid instruments according to the state's responsiveness; and
- measure results using adapted frameworks.

DFID's July 2009 White Paper, *Eliminating World Poverty: Building our Common Future,* lays out its broad strategic priorities: economic growth, environmentally sustainable development, peacebuilding and statebuilding, upholding commitments on the MDGs and other areas, supporting multilateral channels for cooperation, and improving aid effectiveness.

- *Economic growth*: This chapter recognises the impacts of the current economic crisis and commits DFID to supporting social assistance, delivering on commitments made at the London 2009 G20 summit, and monitoring debt levels. Growth and trade are central to DFID's agenda, and DFID will press for a quick conclusion to the Doha talks, help countries establish sound taxation systems, support anti-corruption and anti-money-laundering initiatives, promote a better environment for the private sector and broader access to financial services, work to reduce the cost of sending remittances, support agriculture and food security, help countries develop growth strategies, help countries value natural capital and plan for low carbon sustainable growth, support regional integration and unified markets, encourage investment in all people for equity and jobs, and increase support for fair and ethical trade.
- *Environmentally sustainable development*: The UK Government will seek a comprehensive and equitable deal at the December United Nations Climate Change Conference, invest in research for prediction of local impacts, establish a Climate Change Knowledge Network to deliver policy advice and knowledge, support southern civil society organisations acting on climate change, invest in clean technology and renewable energy, encourage the multilateral development banks to increase lending for clean technology, pilot climate change innovation centres and seed funding for clean technology, stimulate demand for renewable energy and low carbon technologies, invest in sustainable forestry management, help countries plan for climate change, invest in agricultural research, support water resource management and strengthen UN coordination on water, and pilot approaches to insurance services for the poor. With regard to its own operations, DFID will integrate climate change across policy and practice, conduct a strategic review to improve efforts on climate change, and make all activities carbon neutral.
- *Conflict and fragility*: DFID will allocate at least 50 percent of all new bilateral funding to fragile countries, expand use of political analysis, consider commitments to peace and security as part of its development partnerships, increase support for democratic politics, treat security and justice as a basic service with priority to tackling violence against women, expand support for economic opportunities and natural resource management in fragile and post-conflict countries, develop new joint UK government strategies,

establish a cadre of civilians to operate in the most unstable environments, support a treaty to regulate the arms trade, support clearing of unexploded ordinance, and work to improve international coordination and effectiveness (e.g. AU, UN, World Bank, EU) in fragile and conflict-affected countries.

- DFID maintains its commitment to the MDGs and will dedicate 0.7 percent of national income to development assistance by 2013. It will continue to spend half of all direct support for developing countries on public services, particularly health and education.
- DFID will increase the proportion of new resources channelled through multilateral organisations. It will work closely to support and influence UN agencies and system-wide funds, the European Union, the IMF and World Bank, the G20, and the regional development banks. Monitoring for good performance is important across all of these institutions.
- Aid effectiveness and value for money are important themes, and DFID will build accountability, support aid transparency, review spending, and strengthen control and monitoring. DFID will increase engagement with and support of civil society organisations, expand partnerships with organisations based in developing countries, offer new funding to support UK individuals and communities' activities, double funding to faith based groups, and expand work with trade unions. A new "UKaid" brand will be introduced to improve UK and international understanding of UK contributions to development. Stronger links with the private sector will include a Business Innovation Facility and innovative financing for health.

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United Nations Development Programme (UNDP)

UNDP has country plans in place for some countries in the Horn of Africa region but it was not possible to identify any new or recently updated plans reflecting possible changes since the onset of the global economic crisis.

UNDP's regional programme for Africa for 2008-2011 focuses on four broad areas:

- *Poverty reduction and the achievement of the MDGs*, including efforts to support pro-poor economic growth (including inclusive trade and regional integration), decent employment creation, reduction of inequalities (particularly for women), and other means of progressing towards the MDGs.
- *Consolidating democratic and participatory governance*, including strengthening equal participation by men and women in political and economic governance, public sector

efficiency and responsiveness, regional integration efforts, and promoting governance knowledge codification and sharing to improve inter-country learning.

- *Conflict prevention, peace building and recovery*, including support for regional mechanisms for crisis prevention and effective regional recovery and peace consolidation.
- *Energy, environment and sustainable development*, including implementation of sub-regional energy policies, scaling up delivery of energy services and adaptation of technologies, creating a favourable investment climate in the energy sector, promoting capacity development initiatives for regional energy trade arrangements, helping countries develop guidelines on land management and tenure, strengthening capacities for managing shared river basins and forests, and facilitating participation in the Clean Development Mechanism including South-South cooperation.

In Eritrea, UNDP's Country Programme Action Plan for 2007-2011 commits USD 19.9 million of UNDP regular resources with additional funds to be raised from other partners. Key areas of activity include: improving civil service capacity across multiple ministries (22 percent), capacity building of Ministry of National Development and other stakeholders for coordinated planning and budgeting (19 percent), environmental protection and sustainable land and resource use (18 percent), resettlement and reintegration of IDPs (13 percent), food security (8 percent), improving data collection and analysis for the MDGs (7 percent), capacity building for mining sector (MND and Ministry of Energy and Mines) (7 percent), women's rights (4 percent), and other areas (3 percent).

In Ethiopia, UNDP's Country Programme Action Plan for 2007-2011 aims to disburse USD 58 million from UNDP regular resources with additional funding to be sought from partners. The main areas of activity include a range of initiatives related to decentralisation and civil service reform (36 percent), food security and sustainable livelihoods (27 percent), improving knowledge and capacity in relation to economic growth corridors (9 percent), improved project and programme coordination, monitoring, and evaluation (7 percent), improved capacity for monitoring and evaluation of economic growth (3 percent), strengthening commissions on human rights and anti-corruption (3 percent), and a variety of other initiatives (15 percent).

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United States of America

The US provides humanitarian and development assistance in the Horn of Africa region through USAID, and in the area of peace and security also engages through the U.S. military's Africa Command, AFRICOM.

USAID's regional priorities in East Africa are to promote economic growth by expanding regional cooperation and reducing barriers to trade in regional and global markets, strengthen regional health systems to better address the impact of HIV/AIDS and other infectious diseases, and improve African capacity to prevent, mitigate, and respond to conflict. There are also specific programmes targeted to individual countries:

- *Eritrea*: USAID's activities in Eritrea ceased in 2005 except for some humanitarian activities.
- *Ethiopia*: USAID supports conflict mitigation and reconciliation, strengthens the capacity and role of civil society, improves independent human rights monitoring and the respect that the judiciary and police have for human rights, strengthens federal and regional parliaments, builds the capacity of judicial training centres and law schools, supports the Government of Ethiopia's Health Sector Development Plan, improves the quality and equity of primary education, supports food security, promotes an enabling environment for agriculture and trade, and builds the capacity for disaster readiness and planning.
- *Somalia*: USAID supports peace building and national reconciliation initiatives, builds capacity of governing institutions and civil society groups to support the establishment of a functioning national government, strengthens delivery of health and education services, and provides humanitarian and early recovery assistance.
- *Sudan*: USAID provides humanitarian assistance including food aid, promotes civil society activity, strengthens the capacity of local government to address the root causes of conflict, supports displaced women with training and resources, monitors human rights violations, supports prosecution of sexual violence cases, and supports democratic governance and strengthening government institutions. Health programmes focus on maternal and child health services, HIV/AIDS, malaria, tuberculosis, and other infectious diseases. USAID also supports electrification, agriculture, private sector competitiveness, and improved land policies and environmental management.

United States Africa Command engages in military-to-military capacity building to help African countries provide for their own security, mitigate threats from violent extremism, maintain professional militaries that respond to civilian authorities, respect the rule of law, and abide by international human rights norms. It aims to counter international threats of terrorism and weapons of mass destruction arising from Africa, prevent or contain conflict and promote stability in the region, and to support humanitarian work and disaster relief.

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World Bank

Globally, the World Bank is encouraging developed countries to pledge 0.7 percent of their stimulus packages, or as much as they can in additional money, to a global vulnerability fund to help developing countries, whose fiscal space is limited. The vulnerability fund would be targeted at LICs and the poor and vulnerable in particular.

The World Bank has rapidly implemented a Vulnerability Financing Facility, which has gained the support of G-20 donors. It aims to provide an umbrella structure under which specific initiatives can be formed to pool grant resources from donors with World Bank funds in a rapid-response programme to expand and strengthen social safety nets and protect other critical public programmes targeted towards the poor.

In the Horn of Africa region, the World Bank has country assistance strategies in Ethiopia (2008) and Djibouti (2009). In Somalia and Sudan, the Bank is not lending in the normal way but is intending to get involved and has drawn up a re-engagement plan with Somalia (2003) and an interim strategy note for Sudan (2008).

Ethiopia (summary quoted from World Bank): This Country Assistance Strategy (CAS) aims to support Ethiopia in achieving four main strategic objectives, consistent with the Plan for Accelerated and Sustained Development to End Poverty (PASDEP): (i) fostering economic growth, in order to sustain the emerging economic take-off; (ii) improving access to and quality of basic service delivery, in order to sustain the emerging basic service take-off; (iii) reducing Ethiopia's vulnerability to help improve prospects for sustainability; and (iv) fostering improved governance to support progress on the previous three objectives and empower citizens, building on the framework set forth in the 2006 Interim Country Assistance Strategy (ICAS). After eight years of absence, International Finance Corporation (IFC) plans to increase its role in helping growth become more private sector-led by re-establishing its presence on the ground and beginning more active engagement in key sectors. Multilateral Investment Guarantee Agency (MIGA) too is exploring new opportunities to support investment in Ethiopia. A Country Assistance Strategy Completion Report (CASCR) prepared by the Ethiopia country team for the period from 2003 to 2007 found several lessons of experience applicable to the Bank's programme. These include: (a) the enhanced focus on governance in the FY2006 Interim Country Assistance Strategy (ICAS) should be continued in future support, and mainstreamed through the Bank portfolio; (b) the importance of the Bank staying engaged in a constructive manner during shocks; (c) recognition of the unique advantages of budget support; and (d) the need for enhanced results and monitoring frameworks.

Djibouti (summary quoted from World Bank): The country assistance strategy (CAS) for FY2009-2012 is based on Djibouti's National Initiative for Social Development (INDS). The CAS is framed around three strategic themes aligned with the INDS: 1) Supporting growth. The Bank will support the Government's efforts to strengthen the business environment, with a focus on reducing constraints and costs to private sector development, especially in the power, telecommunications, and financial sectors; 2) Supporting human development and access to basic services. The Bank will help Djibouti increase access to and quality of education and health services, and strengthen social protection and direct support to poor people; and 3) Supporting governance and public sector management. The Bank will continue to engage in policy dialogue and technical assistance to strengthen the budget process and improve monitoring and evaluation. The assistance strategy recognises that there are nonetheless risks that could derail implementation of the CAS or limit its impact.

Somalia (summary quoted from World Bank): As part of undertaking the World Bank Low-income Countries Under Stress (LICUS) approach in Somalia, this joint Bank and UNDP note sets forth the rationale for the use of their common resources to contribute to the provision of basic public goods, accelerate socio-economic recovery, and create an enabling environment for long-term institutional and policy change. The strategy is articulated around three principles: a) to provide public goods in the absence of a fully functional national government; b) recognising the high degree of uncertainty, it focuses on interventions unlikely to be reversed in the event of instability, e.g. knowledge-intensive investments aimed at capacity and institution-building; and c) a strong income-generation emphasis through support to the private sector in the livestock area. Four entry points have been identified: (i) Support to macro-economic data analysis and dialogue; (ii) Creation of an enabling environment for the livestock and meat industry; (iii) Coordinated action plan to address HIV/AIDS issues; and (iv) Capacity building for skills development/centers of training. Scenarios for re-engagement range from halting all activity (in the event of conflict increase) to assisting the emerging state to position itself and setting the stage for longer-term Bank engagement in Somalia (if the initial interventions are successful and/or if the Somali peace process progresses).

Sudan (summary quoted from World Bank): The Comprehensive Peace Agreement (CPA) has provided an historic window of opportunity to create a peaceful and prosperous Sudan. The main objective of this interim strategy is to support the Government of National Unity (GoNU) and the Government of Southern Sudan (GoSS) sustain peace and help reduce conflict by meeting the commitments contained in the Comprehensive, Darfur, and Eastern Sudan Peace agreements (CPA, DPA, and ESPA) – particularly in the areas of governance, basic services, and pro-poor economic growth.

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CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Although Sub-Saharan Africa is the least integrated region, it could actually be the worst hit. With the worsening of the global financial crisis, the region as a whole has now been exposed to the downturn and given that Africa is already the most conflict-ridden continent in the world, an exacerbation of resource scarcity could increase conflict across the region.

The impact of the financial crisis is likely to vary between and within countries. At a country level, the crisis will manifest itself according to levels of openness, aid and remittance dependency, financial integration, economic and trade structures, and institutions. The impact of the crisis at a local level is dependent upon household wealth, demographics, education attainments and location.

The combination of decreases in real wages, unemployment and decelerating remittances are putting severe strain on poor households who are affected by unemployment and the increased cost of living. Some household coping strategies may be detrimental to children, causing long-term and possibly intergenerational consequences.

The risks are accentuated in fragile states because of their inherent vulnerability to exogenous shocks such as financial crisis and their exceptionally poor performance in all the core aspects of state functioning. In fragile states, violence, criminality public unrest stemming from increased unemployment, rising costs of living, increased government repressiveness and the inability of governments to provide basic goods and services could lead to a further eroding of confidence in already weak governments. This could instigate a vicious cycle of instability leading to public unrest, fuelling further instability and impeding economic growth.

The vulnerability of fragile states to the financial crisis is a function of economic vulnerability to shocks and the performance of state functions. The most vulnerable states are likely to be characterised by a combination of the following:

- A disproportionate dependency on primary commodities which are subject to price fluctuations, remittances, foreign direct investment and overseas development aid;
- A high specialisation in service industries such as finance, tourism and real estate.
- Weak state institutions which lack basic functions needed for poverty reduction and human development and the inability or lack of political will to safeguard the security and human rights of their population.

An assessment of vulnerability using the Brookings Index of State Weakness and an IMF assessment of economic vulnerability reveals the following:

- The Horn of Africa region is extremely vulnerable and could be on the verge of a major crisis due to pre-existing conflict, drought and food shortages. These problems could spill-over into Kenya, which is dealing with its own food emergency.
- Central Africa could be even more of a flash-point than the Horn of Africa, with the DRC being an engine of instability in the region.
- A number of countries in West Africa, including Liberia, Cote d'Ivoire and Nigeria are extremely vulnerable, with Sierra Leone, Niger, Guinea and Togo not far behind. The Mano River region which includes Sierra Leone, Liberia and Guinea, is an obvious area of potential conflict.

- Angola in Southern Africa is also extremely vulnerable due to its disproportionate dependency on oil.

The key lesson here is that whilst countries which are currently politically unstable and suffer from pre-existing conflicts have suffered severely, decreasing income streams could even push some previously stable countries towards fragility. Thus, there is a perilous risk that the financial crisis could precipitate new instances of fragility and erode many of the gains made over the past decade by post-conflict states in Sub-Saharan Africa.

At the same time, empirical evidence shows that the declines in human development made during economic deceleration outweigh the gains made during economic accelerations. Therefore, achieving the MDGs becomes an even more distant prospect if the impacts of the financial crisis are not mitigated in countries that are fragile or emerging from fragility and conflict.

Recommendations

This section collates some of the recommendations made in the literature and from expert input. It also presents potential areas of collaboration with other donors and potential gaps identified from the donor survey.

The Institute of Development Studies has published a series of policy briefs on policy responses to the financial crisis[6]. Many of the recommendations are summarised here with additional input from other information sources and from experts.

Step up aid commitments and coordination
The worst possible set of actions would involve donors just pulling out. Close collaboration between donors and national governments should continue but this will only be effective if donors harmonise amongst themselves rather than providing conflicting goals and aims to national governments. This should also reduce administrative pressure on governments in terms of servicing donor requirements.

Social budgeting and protection
Fragile countries are likely to have less fiscal space to expand government spending on social protection, especially at a time when this type of spending is needed most by the poorest. In fact, past experience shows that it is often the types of public spending that tend to benefit non-poor people which are protected at such times, with the brunt of the adjustment borne by the poor (Ravillion, 2008b). Aid therefore has an important role in supporting initiatives that transfer income or assets to the poor.

Whilst interventions in social welfare areas are important, they are unsustainable if there is no investment in governance or security to support local populations. Economic development also remains critical; people with jobs are less likely to engage in conflict or criminal activity.

The World Bank’s Vulnerability Financing Facility, which aims to expand and strengthen social safety nets, could present a suitable platform for donor coordination around this issue.

[6] See www.ids.ac.uk/go/infocus7

Invest in research including monitoring and evaluation systems
Reliable and up-to-date data is crucial for assessing the impacts and the effectiveness of policy responses. Investment is needed in early warning poverty and vulnerability systems for the rapid release of indicators, particularly for fragile countries. Further in-depth monitoring is needed to assess trends in the values of trade, migrants' remittances, overseas development assistance budgets and foreign reserve levels in fragile states.

The combined effects of the food, fuel and financial crises are complicated and qualitative research needs to be undertaken to build a picture of the impacts of the crisis on fragility and conflict. In particular, research is needed to assess how people and households in fragile countries are experiencing the crisis so that appropriate pro-poor policy responses can be developed. Research is also needed to generate contextual information and gather local knowledge so that donors are aware of the expectations of different groups in society.

Further research is also needed to address the broader questions on the causes of state fragility and the factors that are likely to lead to the sort of governance that produces conflict.

There is a real paucity of reliable information for the Horn of Africa and Central Africa in all the areas described above.

Support businesses and promote diversification
It is important to support smaller business, particularly in rural areas suffering as a result of reduced demand for exports. The development of linkages to the global economy to reduce the marginalisation of many African countries is also important.

Focus on flash-points but do not ignore regional dynamics
Fragility and conflict do not respect borders. The flash-points identified in this report are regional and it is therefore important to look beyond the national and to consider robust and carefully considered integrated regional approaches. Regional approaches thus far have consisted of collections of national approaches – and some of this needs to stay – but in the Horn of Africa in particular, the issue of boundaries and the non-enforcement of boundaries by governments means that a regional approach is required to deal with this national 'leakage'. Donors should therefore think about focusing on specific regions and work with regional organisations and institutions where donor interventions could have a multiplier effect. Organisations with some capacity at regional level include SADC in the South, ECOWAS in the West and IGADD in the Horn of Africa. One key area that receives a lot of support but has no functioning regional organisation is Central Africa. This is a difficult very area to operate in because of the complexity of the regional situation.

Target vulnerable groups such as women and children who are adversely affected by shocks
Mendoza (2009) argues that programs to invest in children to protect them during periods of crisis provide strong social and economic returns. The gains will come from better human development outcomes and lifetime earnings reclaimed from the individual, as well as from enhanced long-term growth benefits. Investments in early childhood development programmes generate high returns to families and individuals plus cost savings and benefits for governments and society in the long-run.

Prevention is far cheaper than post-conflict reconstruction

The losses in human development during economic decelerations outweigh any gains made during economic acceleration. In addition, the costs of preventing a war are cheaper than intervening afterwards.

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ANNEXE 1

Economic vulnerability and state performance
Data from IMF vulnerability assessments and Brookings Index of State Weakness rankings
Sources: Gamo (2009) and Rice & Patrick (2008)

Country	**IMF Overall vulnerability**	**Brookings Index Ranking**	**Brookings Classification**
	High, Medium and Low risk	(1= worst performer)	
Angola	H	11	Critically weak
Benin	M	71	State to watch
Burkina Faso	M	44	Weak
Burundi	H	5	Critically weak
Cameroon	M	29	Weak
Cape Verde	M	123	Top quintile
Central African Rep.	H	7	Critically weak
Chad	M	16	Critically weak
Comoros	M	31	Weak
Congo, Dem. Rep. of	H	3	Failed state
Congo, Republic of	M	20	Critically weak
Côte d'Ivoire	H	10	Critically weak
Djibouti	H	38	Weak
Eritrea	M	14	Critically weak
Ethiopia	M	19	Critically weak
Gambia, The	L	51	Weak
Ghana	H	84	State to watch
Guinea	M	23	Critically weak
Guinea-Bissau	L	18	Critically weak
Kenya	L	50	Weak
Lesotho	H	53	Weak
Liberia	H	9	Critically weak
Madagascar	M	49	Weak
Malawi	M	46	Weak
Mali	L	52	Weak
Mauritania	H	37	Weak
Mozambique	M	39	Weak
Niger	M	21	Critically weak
Nigeria	H	28	Critically weak

Rwanda	M	24	Critically weak
São Tomé & Príncipe	M	61	State to watch
Senegal	L	68	State to watch
Sierra Leone	M	13	Critically weak
Somalia		1	Failed state
Sudan	H	6	Critically weak
Tanzania	M	55	Weak
Togo	M	26	Critically weak
Uganda	L	27	Critically weak
Zambia	H	32	Weak