

OVERCOMING FRAGILITY IN AFRICA

FORGING A NEW EUROPEAN APPROACH



MOBILISING EUROPEAN RESEARCH
FOR DEVELOPMENT POLICIES



EUROPEAN REPORT
ON **DEVELOPMENT**

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European
University
Institute

Robert Schuman Centre for Advanced Studies

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European Report on Development 2009, *Overcoming Fragility in Africa*, Robert Schuman Centre for Advanced Studies, European University Institute, San Domenico di Fiesole.

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FOREWORD

Policy-making requires accurate, deep and timely knowledge of any situation. And development is no exception. In Europe, many universities and research institutes think about development issues and produce enlightened analytical work. However, its full potential has yet to be unleashed for numerous reasons, including a fragmentation of efforts, a lack of resources and a disconnect from policy-making.

The “Mobilising European research for development policies” initiative is meant to remedy this situation. Currently supported by the European Commission and six Member States (Finland, Germany, Luxembourg, Spain, Sweden and the United Kingdom), it seeks to enhance the European perspective of some of the most pressing development issues of our time through the knowledge, innovation and building common ground between the European research community and policy-makers.

This *European Report on Development* (ERD), to be published yearly, is the main outcome of this initiative. It is an independent, knowledge-based and forward-looking review of development issues reflecting the European vision. It will help the European Union to refine its vision on development, enrich its policies and influence the international debate. It will also complement other flagship reports on development, in an attempt to reflect the diversity of views that may co-exist on various issues and – where relevant – the specific European approaches, based both on Europe’s political and social values and on its own history and experience. Indeed, we are convinced that there should not be any monopoly of thinking in a field as complex and rich as development policy.

This year’s edition, elaborated under the lead of the European University Institute (EUI) in Florence, deals with the complex and multidimensional issue of “fragility”, with a specific focus on Sub-Saharan Africa, where most fragile countries are located. This has been described as the “toughest development challenge of our era”. Dealing with situations of fragility is, rightly, a growing concern both for Europe and for the entire international community. It is an increasingly important priority in European development policies. It is also a key challenge for European security strategy.

Overcoming fragility is above all a moral imperative. One-third of the world’s poor live in fragile states. Progress towards the Millennium Development Goals (MDGs) is lagging behind in these countries, and the cost of weak governance – especially when it leads to conflicts and wars – is enormous, in economic, human and social terms. This is all the more important considering the closely linked food, fuel and now financial and economic shocks that threaten to reverse recent development progress. The human costs of the crises are particularly worrying for fragile Sub-Saharan African countries, where the ability to cope with shocks is limited.

Situations of fragility are also a major cause of concern from the security perspective. In an interdependent world, tackling fragility is also in our own interest, to ensure global stability and prosperity. The revival of piracy in the Gulf of Aden, closely linked to the turbulence in Somalia, and the flows of economic, political and war refugees who, understandably and often reluctantly, flee the fragility at home to build better and more stable lives in Europe and other wealthy parts of the world, are just some examples of this growing interdependence.

These situations encompass an extremely diverse group of societies with very different socio-economic, cultural and political circumstances and compositions. They thus require specific, tailor-made approaches when it comes to external support. The classical development policy “mantra”, such as the aid effectiveness agenda (Paris Declaration and the “Triple A” Agenda), the European Consensus on development and the approach to support governance reforms, meets specific challenges in their application in fragile contexts. As mentioned in the 2008 EU research paper “Millennium Development Goals at midpoint”, led by Professor François Bourguignon and produced in the context of this initiative,¹ “fragility needs to be tackled if progress on the [Millennium Development Goals] is to be achieved. This will require sustained engagement and new, imaginative use of combined political, technical, financial and sometimes military resources, engaging with governments but also civil society and non-state actors”. In that regard, partner and donor countries are currently jointly engaged in an “international dialogue on state building and peace building”, with the aim of possibly arriving at a consensus on objectives and principles of intervention in these most difficult circumstances.

An intensive participatory process, bringing on board a wide range of top scholars, policy-makers and civil society representative from both Europe and Africa, has been undertaken to conduct this ambitious policy research initiative. Through building common analytical ground on how to better grasp those difficult situations, this first edition of the ERD will help Europe fine tune its strategic approach to fragility and define more coherent policies in the future. It is a major step forward for the European research initiative, which seeks to clarify how best to reconcile development goals with new global challenges.

Stefano Manservigi



Director General of the European Commission for Development
and Relations with African, Caribbean and Pacific States

Yves Mény



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¹ Bourguignon et al., 2008.

ACKNOWLEDGEMENTS

This Report was prepared by a team led by Giorgia Giovannetti, including Franklin Allen, Simone Bertoli, Shailaja Fennell, Wendy Harcourt, Marta Reynal-Querol, Marco Sanfilippo, Elisa Ticci, Pascal Vennesson and Thierry Verdier, based at the Robert Schuman Centre for Advanced Studies of the European University Institute (EUI). Ingo Linsenmann was the Project-Manager.

The team is particularly grateful to François Bourguignon for his scientific advice, to Luca Alinovi, Nicolas Gérard, Sanjev Gupta, Seth Kaplan, Stephan Klasen, Ramon Marimon, Françoise Moreau, Yaw Nyarko, Torsten Persson, Dorothée Starck and all members of the European Report on Development Steering Committee for their enduring advice and support. We are also very grateful to Stefania Innocenti for research assistance.

William A. Amponsah, Mina Bali moune-Lutz, Stefano Bartolini, Victor Davies, Jörn Grävingsholt, Sven Grimm, Francesco N. Moro, Donato Romano, Alexander Sarris, Andrew Sherriff and Gianni Vaggi contributed extensively to the consultative process. Lubomira Bencova, Piera Calcinaghi, Monique Cavallari, Angela Conte, Mei Lan Goei, Laetitia Jespers, Alexei Jones, Laura Jurisevic, Christine Lyon, Serena Scarselli, Elisabetta Spagnoli and Valerio Pappalardo contributed to various stages of the Report. Bruce Ross-Larson and Christopher Trott edited early drafts of the chapters. Chris Engert handled the linguistic revision of the background papers. We thank all of them.

We are indebted to authors of background papers and notes: Ernest Aryeetey, Niagale Bagayoko-Penone, Michael Barnett, Nicolas Berman, Elva Bova, Deborah Bryceson, Christian Büger, Maurizio Carbone, Paul Collier, Lorenzo Cotula, Nasredin Elamin, Fernanda Faria, Patrick Guillaumont, Sylvaine Guillaumont Jeanneney, Kenneth Harttgen, Damien Helly, Lelio Iapadre, Zohra Kahn, José Maria Larrú, Francesca Luchetti, Philippe Martin, Alan Matthews, Jesse McConnell, Mark McGillivray, Andrew Mold, Wim Naudé, Janvier Nkurunziza, Abena D. Oduro, Sara Pantuliano, Jean-Philippe Platteau, Béatrice Pouligny, Alina Rocha-Menocal, Prabirjit Sarkar, Ajit Singh, Aysen Tanyeri-Abur, Necla Tschirgi, Margherita Velucchi and Tony Venables.

A special thank you goes to the participants to the New Faces for African Development initiative, who have enthusiastically contributed to bring fresh and new views into the report, presented their work and wrote notes and papers: Eme Akpan, Muslihah Badmus, Japhet Biegon, Christian B. Kamga Kam, Dorine Kanmi Feunou, Nicholas Kilimani, Albert Makoche Kanwa Douzounet Mallaye, Ndubuisi Nwokolo Magidu Nyende, Isaac Oluwatayo, Thomas Poirier, Afees Salisu and Sigismond Wilson.

It is impossible to thank everyone, as many contributed to the process which led to the publication of this Report participating to the preparatory events in Brussels (February 6), Cambridge (March 17-18), Florence (April 16-17), Barcelona (May 7-8), Accra (May 21-23), Florence (June 22-23) and Brussels (September 4). The complete lists of participants to these events are included in Volume 1B, but we would like to gratefully acknowledge here the contributions they all brought to the consultative process and to the discussion on a controversial topic. Many thanks also go to the hosting Institutions, namely the Jesus College in Cambridge, Universitat Pompeu Fabra and CREMed (Center for Research on the Economies of the Mediterranean) in Barcelona, and the ISSER (Institute of Statistical, Social and Economic Research) in Accra.

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ACRONYMS

	ACP	African, Caribbean and Pacific countries
	AfDB	African Development Bank
	AIDS/HIV	Acquired Immunodeficiency Syndrome / Human Immunodeficiency Virus
	CAP	Common Agricultural Policy
	CIFP	Carleton University Country Indicators for Foreign Policy
	CPIA	Country Policy and Institutional Assessment
	DAC	Development Assistance Committee
	DFID	Department for International Development
DG Development		Directorate General Development European Commission Directorate General Development and Relations with African, Caribbean and Pacific States
	ESDP	European Security and Defence Policy
	EU	European Union
	FAO	Food and Agriculture Organization of the United Nations
	FDI	Foreign Direct Investment
	GDP	Gross Domestic Product
	GNI	Gross National Income
	GTZ	Gesellschaft für Technische Zusammenarbeit
	HDI	Human Development Index
	IFPRI	International Food Policy Research Institute
	IIED	International Institute for Environment and Development
	ILO	International Labour Organisation
	MDGs	Millennium Development Goals
	NATO	North Atlantic Treaty Organization
	ODA	Official Development Assistance
OECD DAC		Organisation for Economic Co-operation and Development Development Assistance Committee
	SIPRI	Stockholm International Peace Research Institute
	SITC	Standard International Trade Classification
	UNCTAD	United Nations Conference on Trade and Development
	UNDP	United Nations Development Programme
	UNECA	United Nations Economic Commission for Africa
	UNHCR	United Nations High Committee for Refugees Agency
	UNIFEM	United Nations Development Fund for Women
	UNMIS	United Nations Mission in Sudan
	UNODC	United Nations Office on Drugs and Crime
	UNRISD	United Nations Research Institute for Social Development
	WFP	World Food Programme
	WHO	World Health Organization
	WPF	World Population Foundation
	WTO	World Trade Organization
	ZCCM	Zambia Consolidated Copper Mines

OVERVIEW

The 2008–09 crisis induced the worst global downturn since 1929. The economic and financial crisis has hit the budgets of the EU and other developed countries, creating huge debt overhangs, unemployment and social problems. And it has been particularly devastating for fragile countries, most of them in Sub-Saharan Africa, at first thought to be sheltered by their low financial integration with the rest of the world. While Sub-Saharan Africa's dire socioeconomic situation calls for a renewed commitment, EU concerns about domestic social problems may displace attention and funds from EU development aid policies. But the EU must keep, and possibly strengthen, its commitment to Sub-Saharan Africa, avoiding inefficient aid policies. A reassessment of the EU development policy towards the Sub-Saharan Africa fragile countries is in order. That is the aim of the *2009 European Report on Development*, (ERD 2009) the first in an annual series.

The *2009 European Report on Development* analyses the costs and characteristics of fragility (Section 1), the capacity of fragile countries to cope with negative shocks such as the 2008–09 financial crisis (Section 2), and the EU's current engagement with fragile countries as well as the potential for EU development policy to assist national stakeholders in enhancing resilience (Section 3). The focus is on Sub-Saharan Africa because this region appears to be particularly lagging behind in the sphere of state consolidation; a stylised fact survives all the theoretical disputes around the definition and measurement of fragility – Sub-Saharan African countries always account for most of the group of fragile states (box1).¹

Box1: Which Sub-Saharan African countries are fragile?

Several classification and rankings of state fragility exist. Box table 1 shows the operational list of Sub-Saharan African countries in fragile situations used in this Report.

Box table 1: Sub-Saharan countries in fragile situations

Angola	Equatorial Guinea	Nigeria
Burundi	Eritrea	Rwanda
Cameroon	Ethiopia	São Tomé and Príncipe
Central African Republic	Gambia, The	Sierra Leone
Chad	Guinea	Somalia
Comoros	Guinea-Bissau	Sudan
Congo, Dem. Rep. of	Kenya	Togo
Congo, Rep. of	Liberia	Uganda
Côte d'Ivoire	Mauritania	Zimbabwe
Djibouti	Niger	

The list has been put forward by OECD (2009), but it has not been officially endorsed by the OECD. It is the result of a compilation of the bottom two quintiles of the World Bank's Country Policy and Institutional Assessment for 2007, the Brookings Index of State Weakness in the Developing World for 2008 and the Carleton University Country Indicators of Foreign Policy for 2007. The ERD 2009 uses this list for operational purposes but does not endorse it because we maintain that the definition itself is dynamic (see chapter 1).

The human and economic costs of fragility call for orienting development models, strategies and actions towards building up the resilience of societies – that is, towards increasing the ability of a socioeconomic system to adapt and cope with shocks and changing conditions without compromising people's capabilities. In a world where global shocks are getting increasingly severe and affecting more people, the resilience of a socioeconomic system is fundamental for a country's development path. And it should be a central objective of national development strategies and thus of development assistance.

Fragile countries in Sub-Saharan Africa share many characteristics – they all have serious structural problems and dysfunctional institutions – but they also differ in many dimensions (box 2). For them, an emergency situation is the rule, not an exception. In the attempt to offset shocks, they often lack a long-term horizon for their choices, and immediate needs distort long-run objectives. The EU can help them to stick to the path away from fragility and towards resilience and sustainable growth. To this end, the EU needs a flexible long-term approach for its engagements and new forms of governing aid to improve its efficiency. It should make credible long-term policy and budgetary commitments, which do not interfere with the principle of national sovereignty. These commitments would allow fragile countries to lengthen the time horizons of their policies.

¹ For instance, 29 of 49 countries identified as fragile by OECD (2009) are in Sub-Saharan Africa.

Moving from priorities to specific prescriptions and guidelines for intervention requires deeply rooted knowledge on the ground, to account for the fragile Sub-Saharan African countries' remarkable heterogeneity in history, culture, economic situation and politics. Detailed policy prescriptions can be formulated only by matching policy expertise with the knowledge of the local context.²

EU COMPARATIVE ADVANTAGES: TO DEVELOP HUMAN AND SOCIAL CAPITAL AND SUPPORT INSTITUTIONAL DEVELOPMENT

EU and member states' development assistance has great potential. For most Sub-Saharan African fragile countries, Europe is the main donor, trading partner and source of foreign investments and a relevant migrant destination. And the EU is an important political, diplomatic and economic bloc. Still, Europe cannot forget that fragility often has its roots in colonisation and decolonisation processes, at times magnified by the irresponsible practices of foreign companies and the illicit and criminal trafficking to and from Europe.

The EU should remain engaged in fragile countries, respect domestic ownership, go beyond the mere institution building, fully exploit its comparative advantage and concentrate its efforts on developing human and social capital and supporting institutional development at local and regional levels.

Unlike most aid agencies,³ the array of potential EU policies extends much beyond financial assistance to include trade, agriculture, fisheries, security, migration, climate change, environment, social dimension of globalisation, employment, research and development, information society, energy and governance.⁴ Furthermore, the EU's history is one of institutional development within diverse societies, characterized by institutions with different roots, tradition and history. Hence, during its own history of enlargement, the European Union had to cope with problems of transition from military dictatorship to democracy (for example Greece, Portugal and Spain in the 1970s) as well as integration of countries that only recently shifted to a market approach. These experiences provide very useful knowledge to deal with fragility.

The potential for Europe's action should not, however, be overstated. The world order has become more multipolar, with emerging political and economic centres having joined the oldest actors. The US-China-EU configuration has become pivotal in the international system. In addition to the main international organisations, other countries have been engaging in fragile states, from the United States to East Asian and Arab Gulf countries. China in particular has built infrastructure, invested in land and increased soft power in most fragile countries.

Moreover, the EU's initiatives to tackle state fragility, such as its assistance to state- and peace-building, could be perceived as intrusive and not politically neutral by partner countries. They can, possibly unintentionally, also affect processes and dynamics that are intrinsically internal. In addition, internal resistance and constraints within the EU can weaken the commitment to development policies. And the aging population, the huge debt accumulated in the crisis and the EU's enlargement can weaken the incentives to direct public resources to international development cooperation.

Box 2: Common features of fragile countries – and substantial differences

The inability to mobilise domestic resources and dependence on external resources. Fragile countries are unable to mobilise domestic resources and to draw substantial fiscal revenues from taxation. Sub-Saharan African fragile countries' government revenues excluding grants rarely account for more than 20% of GDP. Taxes range between 6 and 13% of GDP, so that there is very limited room to provide public goods and services.

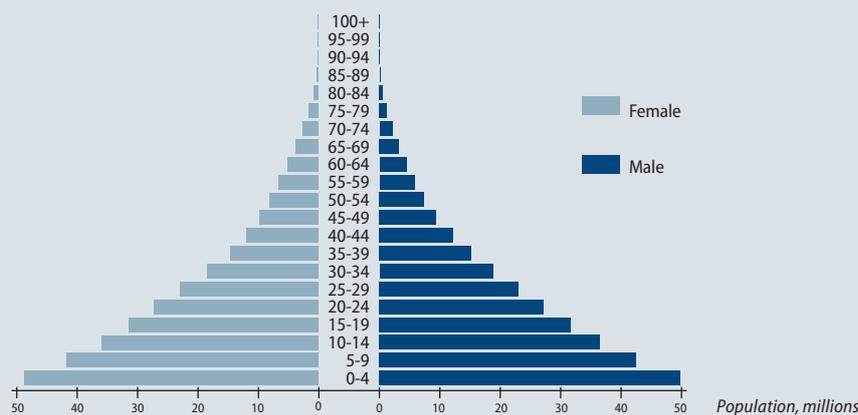
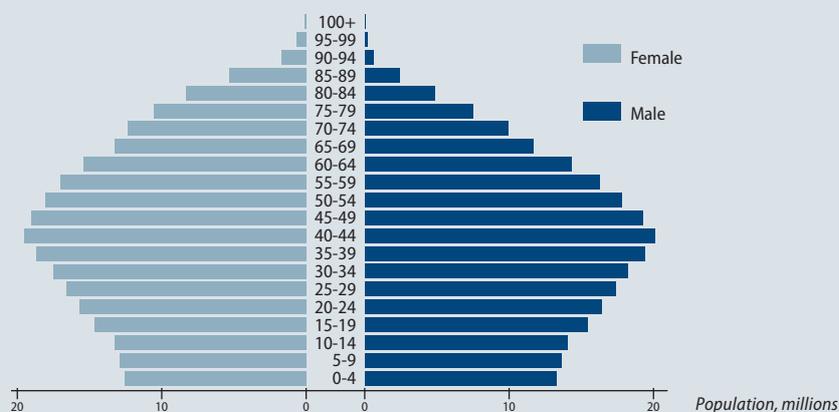
Low human development. The low public investment in human development is reflected in poorly functioning education and health care systems. In fact, although many fragile states have decreased their military expenditure, this decline has not been offset by an increase in health and education.

Low population density. Most fragile countries are characterised, on average, by a very low population density: 15 out of 29 countries have fewer than 40 inhabitants per square kilometre, while the population density in nonfragile countries stands at around 84. The population is young and increasing (in clear contrast to the population pyramid for the EU). Moreover, in these countries the majority of the population lives in rural areas. ▶▶

² GTZ (2008) examines six country studies and emphasizes geographical diversity and different government stage and development orientation: "the 'do no harm' approach, sensitivity to context and thorough knowledge of the country remain indispensable to any strategy development" (p. 12).

³ Aid agencies and international institutions have a much more limited range of actions, often confined to short-term remedial measures and, because of their institutional duties, to one specific issue. See the background paper by Collier (2009a) in volume 1B on this point.

⁴ See Commission of the European Communities (2009), which identifies 12 relevant policy areas.

Box figure 1: Population pyramid in Sub-Saharan African fragile countries**Box figure 2: Population pyramid in the European Union**

Source: U.S. Census Bureau International Data Base.

Weak soft and hard infrastructure. Fragile countries have only 8 metres of paved road per square kilometre, nonfragile 18. Transport costs in fragile countries (especially for intra-African trade) are more than twice those within South East Asia. It takes around 116 days to move a container from a factory in the Central African Republic to the nearest port. The same transaction takes five days from Copenhagen. The most direct flight between Chad and Niger is via France – more than 4,000 kilometre; there is only one flight a week from Bangui in the Central African Republic to Europe; the number of mobile lines per 1,000 inhabitants, despite a huge recent increase, is half that in nonfragile countries.

Concentrated exports. The export diversification index is less than half that in nonfragile countries, revealing very high concentration. With few exceptions, fragile countries export mainly primary products: in 2006, on average, primary products accounted for more than 80%, of which 30% was in fuels, with some countries such as Angola, Chad, the Republic of Congo and Equatorial Guinea above 90%.

A high exposure to the risk of breakout of armed conflicts. Of people in the countries of the Bottom Billion, a proxy for the list of fragile countries, 73% have recently experienced or are in a civil war. Moreover, the risk that these countries fall into civil war in any five-year period is tremendously high – one in six.⁵

But...

Divergent growth. Fragile countries grew at around 4% a year between 2000 and 2008. But resource-rich fragile countries grew at 6.3%, peaking at 10% in 2002 and 8.5% in 2004. Fragile countries not resource rich grew at 2.3%.

Incomes. The real per capita income, on average \$600 in 2008 in fragile Sub-Saharan African countries, ranges from \$100 for the Democratic Republic of Congo to \$4,500 for Equatorial Guinea.

Life expectancy. In São Tomé and Príncipe, people have a life expectancy at birth of more than 65 years, in line with the average for developing countries – but citizens of Sierra Leone and Zimbabwe have a life expectancy of little more than 40 years.



⁵ Collier 2007.

Foreign direct investment (FDI) flows only go to resource-rich countries. More than 70% of all incoming FDI to Sub-Saharan African fragile countries from 2000 to 2007 went to just five countries: Angola, Chad, Equatorial Guinea, Nigeria and Sudan, all well-endowed with natural resources.

Foreign reserves – scant or adequate. Some fragile countries have very low foreign reserves (less than 90 days of import coverage). In April 2009, Ethiopia, Guinea and Zimbabwe had reserves for no more than one month of imports, whereas oil exporters had half a year.

External debt. Oil exporters have contained external debt, and debt distress indicators are largely under control. For example, the ratio of debt to gross national income and total debt for exports of goods and services have improved substantially in Angola and Sudan since 2000. Resource-poor fragile countries, such as Guinea Bissau and Liberia, still have a large debt burden, undermining their future development.

1. TOWARDS BETTER EU RESPONSES TO FRAGILITY

A review of the current EU approach to conditions of fragility (chapter 8) reveals that progress is warranted in several directions.

The first, and more general, direction for improvement is to narrow the implementation gap that drives a wedge between the theoretical policy framework and the design of specific interventions on the ground. This represents a fundamental challenge because the effect of a policy is seen in its implementation. Furthermore, such implementation has to be properly tailored, as “one-size-fits-all” policies do not suit the needs of fragile states.

Next, and more specifically, progress is needed:

- To reach a solid understanding of the local context – to design effective interventions informed by such an understanding.⁶
- To explore how the principle of ownership should be adapted when dealing with countries that have incapacitated or illegitimate state institutions, which can make budget support a particularly challenging option – a situation which is pervasive in most fragile countries. Even in those with democratic institutions, governmental legitimacy is often shortlived, making it very difficult to implement long-term policies through budget support, unless there is close monitoring.
- To avoid having the breadth of EU policies backfire and different policies produce indirect adverse effects on fragile states. The horizontal dimension of policy coherence needs to be matched by a better search for vertical coherence, ensuring better coordination, within the EC and between the EC and EU member states, often reluctant to lose their protagonist role. This coordination will allow the EU to act with one voice, making EU development policy more accountable and well understood by recipients.
- To make EU trade policy more responsive to the specific needs of Sub-Saharan African fragile states, and ensure that bilateral agreements do not harm the process of regional or multilateral integration. While there is some scope for exceptions for developing countries and particularly for least developed countries within World Trade Organization rules, there is no specific provision for fragile states or fragile situations. This is an area where progress could be substantial.
- To shift from responsive to preventive interventions – so that countries in fragile situations do not slide further down a spiral that progressively erodes the capacity and legitimacy of their state institutions. Such a shift could require moving towards a regional approach to fragility, because the bad neighbour effects could jeopardize state-building and social cohesion.⁷
- To better understand how the security and development nexus can be properly handled. Peace and security are among the key issues of the strategic partnership between the EU and the African Union. While there have been a number of positive experiences, in some others security actions have interfered with development policies.

Narrowing the gap requires reassessing priorities, concentrating efforts on a few well-defined and agreed-upon goals, simplifying procedures and, in those situations where the state institutions are incapacitated or unwilling to perform their duties, finding the appropriate organization or partner to implement the policies.⁸ This is an issue not only of implementing policies but also of building trust among recipients and donors and learning from the policy experiences.

⁶ In postconflict situations, “the context is subject to very fast changes and numerous challenges must be addressed simultaneously. Here a flexible mix is necessary” (GTZ, 2008, p. 22).

⁷ Many historical experiences of dealing with fragility have shown the need for a regional approach, the Balkans being one example.

⁸ See Collier (2009b), box 9.5 in chapter 9 and GTZ (2008) for lessons learnt on the ground.

Although progress is visible and EU policy documents now provide more comprehensive political guidance, there is still a long way to go in translating commitments into practice. Financial instruments and procedures may have become simpler and more flexible, but they remain too complex, cumbersome, lengthy and unfriendly to recipients.

Box 3: How the 2008-09 crisis has hit Sub-Saharan African fragile states

Fragile countries, little integrated into the global economy, were at first spared the direct effects of the financial crisis; however, they have been hit by the resulting global recession and trade collapse.

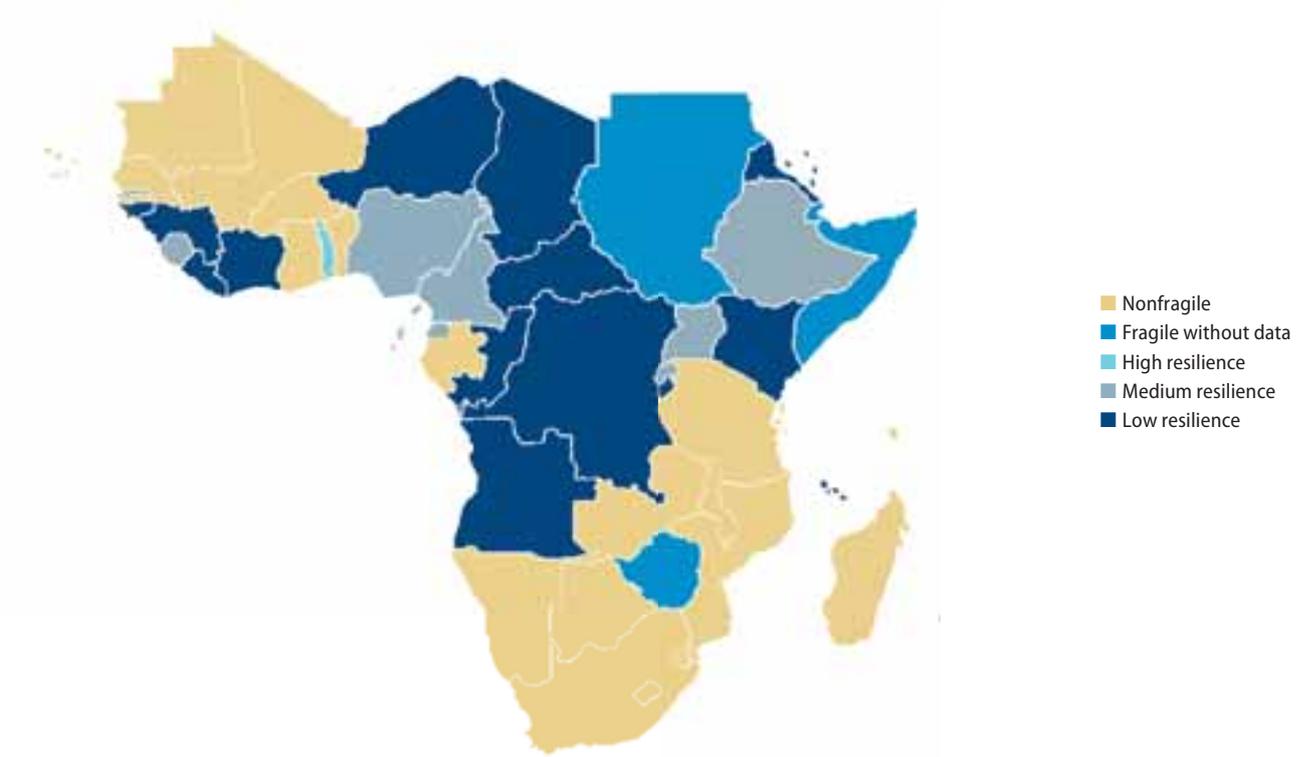
The economic and financial crisis came on top of a period of high and volatile food and fuel prices. Their spikes through mid-2008 put food-importing and oil-importing Sub-Saharan African fragile countries under severe stress, depleting their foreign exchange reserves and making it difficult to pay for imports and sustain growth. The boom and bust contributed to output volatility, discouraging investments in long-term productive capacity.

Most Sub-Saharan African fragile countries have almost simultaneously suffered fuel, food and finance shocks. Recent estimates put real GDP growth for 2009 at around 1.5%, down from an estimated 5.5% in October 2008. These numbers would make 2009 the first year in a decade in which most fragile Sub-Saharan African countries recorded negative growth in real GDP per capita, threatening the progress towards the Millennium Development Goals and undermining political stability. Slower growth does not always threaten to reverse human development, but it produces setbacks, especially through cuts in education and health expenditures, which have serious long-term consequences.

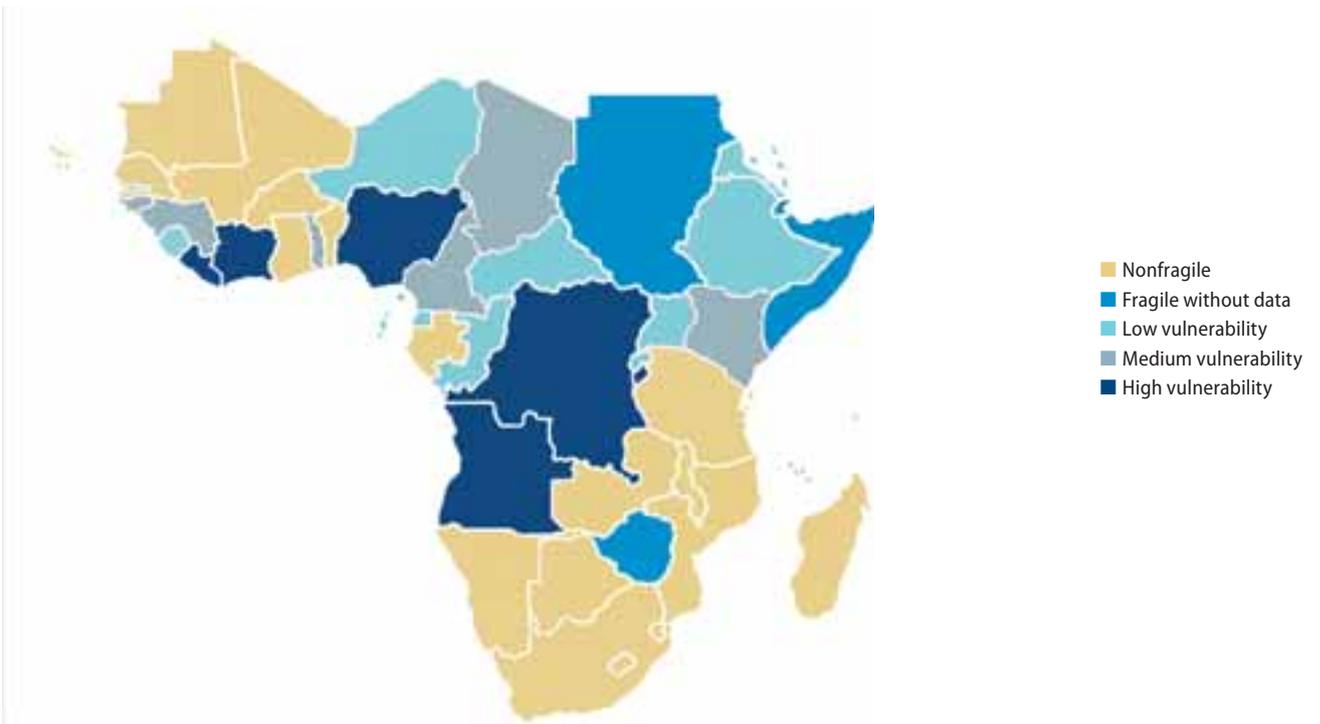
Fragile countries in Sub-Saharan Africa have small domestic banking systems and thin to nonexistent equity markets. Given the low financial development in the region and the limited linkages of fragile countries to the global financial system, the main channels of transmission for the crisis are in the real sectors of the economy. They are exposed to the crisis mainly through trade: the reduction in export earnings is accompanied by an adverse terms of trade effect reinforced by the excessive dependence on commodity exports of fragile Sub-Saharan African countries and the polarisation of their exports. Trade collapsed in 2009, and Sub-Saharan African countries are more affected than other countries by such a development because of cuts in trade finance (the least reliable are more likely to suffer cuts) and because of the composition of their export baskets. Fragile countries are also exposed through lower inflows of FDI, due to a “wait and see” attitude of investors in uncertain situations, (possibly) lower inflows of foreign aid and lower migrants’ remittances. Intra-African remittances are particularly relevant because migrants from fragile countries cannot afford the high costs of migrating to high-income countries and move nearby. But the main destination markets for migrants of fragile countries, Nigeria and South Africa, have been the only Sub-Saharan African countries directly affected by the crisis.

Fragile countries were hit hard, but the impact is highly heterogeneous across countries; as a result there is not higher vulnerability for fragile countries. What is much lower is the capacity to recover from shocks.

Map 1: Resilience of fragile countries in Sub-Saharan Africa



Map 2: Vulnerability of fragile countries in Sub-Saharan Africa



2. SETTING PRIORITIES

Building on past experience, learning from mistakes and adapting to rapidly changing contexts while respecting national sovereignty, the EU has to set its own priority areas of intervention. The ERD 2009 analyses suggest that five priorities should inform the EU's long-term engagements in fragile states in Sub-Saharan Africa with the goal of enhancing resilience:

1. Supporting state-building and social cohesion. The fundamental objective of external engagement in fragile countries is contributing to the endogenous process of state-building.⁹ The EU has endorsed this core priority in its *European Consensus on Development*,¹⁰ so that its engagement in Sub-Saharan African fragile countries needs to be focused on this long-term goal. The complexity of such engagement is due to the fact that one cannot have an external (European) view of these processes. The state-building process for Sub-Saharan African fragile countries will not resemble the 19th century process of state-building in Europe. Similarly, social cohesion will not be the same among ethnicities and religions whose differences go back hundreds of years. Knowledge of the local context plays a crucial role in the external engagement in fragile countries – necessary to identify which actors can drive change, leading these countries out of fragility, possibly through different paths. While “change actors” have to be strengthened, in particular encouraging women's participation in state-building, it is also important to weaken the possible “veto players” and to support leaders in their efforts to rebuild a new social compact between the state and citizens and between different factions and ethnicities. If certain groups are discriminated against and excluded from political representation, the likelihood of conflict is higher and the move out of fragility more difficult.

2. Overcoming the divide between short-term needs and long-term resilience. To shift attention in fragile countries from covering urgent short-term needs to having a longer term horizon, the EU could put in place an insurance mechanism to safeguard fragile countries from volatile export revenues. With (more) stable revenue, fragile countries could strengthen their potential long-term comparative advantages.

3. Enhancing human and social capital. Investing in the education of the citizens of fragile countries, trying to narrow the gender gap and building social capital are the best ways to sustain growth and development and to enhance resilience. Fragile and conflict-affected countries suffer from disruptions of public education, which reduce enrolment rates and increase adult illiteracy rates. Adequate funding must be granted not only to basic education but also to tertiary education, addressing gender inequalities and stimulating local knowledge and innovation. Targeting interventions to young people could also be crucial, especially in postconflict fragile countries, for reducing the attraction of such illegal activities as trafficking or smuggling.

4. Supporting better regional governance, including regional integration processes. Regional trade agreements allow African countries to derive substantial economies of scale with larger regional markets – to enhance domestic competitiveness, to raise returns on investments and to subsequently attract FDI, leading in turn to technology transfer and growth. They could also enable these economies to pool resources for the joint provision of a range of infrastructure projects, exploiting economies of scale and internalizing the cross-country regional effects of such investments. And they would allow small African countries to negotiate more effectively on economic policy issues with other trading blocs or big private partners. From an institutional point of view, regional agreements may also provide commitment mechanisms for policy-making and reforms. They could be particularly relevant for states with weak domestic commitment capacity. In this respect, regional integration agreements may be used as tools of institution-building. Entering a trade bloc with strong “club rules” can help anchor democratic reforms and build credibility in member countries.

5. Promoting security and development in the region. Action on security and development requires a multifaceted strategy. A long-term effort is needed to transform European political cultures from neutralist and inward-looking to involvement in global governance. Connecting the EU's global responsibilities and the domestic well-being of citizens in Europe is therefore crucial. EU policy-makers should realize that EU action in every domain – from agriculture and fisheries to trade and to research and development – can have security implications, conversely, that security initiatives can affect development and trade. The EU should shift its linear, social engineering approach focused on its available instruments to a more flexible, strategic approach that recognizes the contested and political character of many donor objectives and policies. The growing resort to instruments of civilian and military crisis management is an opportunity not only to encourage joint planning (military, civilian and development) but also to think more strategically. It is also an opportunity to reward risk-taking by the EU staff, often essential in fragile situations. Ignoring these pressing security concerns is counterproductive: instead of implementing a pre-existing blueprint, much can be achieved if the security needs of the population are taken seriously, a first step towards a genuine local ownership, including addressing ways to overcome gender-based violence.

⁹ See OECD/DAC 2007.

¹⁰ See European Parliament Council Commission 2006.

In summary, inaction would have very high costs for both donors and recipients. For fragile countries the costs are reflected in the poor human development and lack of security related to persistent development gaps: the costs of not achieving resilience. For Europe – geographically close to Africa and its problems of explosive demographics, illegal trafficking, smuggling, piracy, gender-based violence and environmental threats – the negative spillovers can be considerable. Hence, the EU action should be reassessed. The EU cannot afford to waste funds or be inefficient. To have an efficient development policy with impact, it is crucial that the EU:

- Act with one voice – and define policies with one voice. Discussions amongst EU members, and with the EC, can be open and lively, but once a policy is jointly defined and agreed upon, the EU should stick to it.
- Be committed to long-term policies, and avoid shifts in policy objectives and in core areas of interest, because the specific problems of countries in fragile situations are mainly structural and persistent, and a pervasive aspect of fragility is the inability to follow long-term objectives.
- Establish the “right delegation” to implement the policies. Delegation is crucial because donors and recipients often are not in a position to best implement or monitor programmes, given the need to address local complexities. In these situations, it might be appropriate to separate the different functions of government: policy formulation from specific fund allocation and from monitoring, with the last performed by independent agencies.
- Understand that state-building and social cohesion in Sub-Saharan African countries are long evolutionary processes, taking new, diverse and unpredictable forms at the country and regional levels. Such processes require constant attention and the right institutional support on the ground.

Taking all these elements into account can also show the need for deepening our understanding in many areas. One is the role of persistent inequalities in fragile situations; another is the need for social safety nets and social organisations in building resilience.

SECTION ONE

UNDERSTANDING FRAGILITY



CHAPTER 1

STATE FRAGILITY IN SUB-SAHARAN AFRICA: COSTS AND CHALLENGES

1. EUROPEAN DEVELOPMENT POLICIES IN A CHANGING GLOBAL CONTEXT

Never before have poverty eradication and sustainable development been more important. The context within which poverty eradication is pursued is an increasingly globalised and interdependent world; this situation has created new opportunities but also new challenges.

European Consensus on Development, 2005

The EU's commitment to promoting more equitable and sustainable development at the global level needs to deal with the challenges of 21st-century globalisation. Countries, societies and economies are more interlinked and less isolated – and thus more likely to be influenced by changing conditions and varying external forces that interact with internal dynamics. Greater integration is accompanied by a move of economic activity to the east. The heavier weight of China and India in world GDP and exports makes them crucial players in the international arena, particularly China in Sub-Saharan Africa. Development policies cannot overlook the new sociopolitical equilibria.

Population patterns are another feature of 21st-century globalisation. Whereas the EU has an ageing population, Sub-Saharan Africa is characterised by a young population. In 2010 Africa is projected to have 40% of the population ages 0-14 and 20% ages 15-24, for a total of 60% below 25, compared with 28% in the EU. These trends – together with the challenges posed by global warming, international crime organisations and the recent international food price shock – are major examples of challenges facing societies.

Against this background, 2008-09 is the worst global downturn since 1929. The economic and financial crisis has hit the budgets of the EU and other developed countries. And it has been particularly devastating on the world's poorest countries, most of them in Sub-Saharan Africa. Preliminary estimates indicate that, because of the crisis, up to 90 million people could remain in poverty,¹ and up to 400,000 more infant deaths could occur.² But it is very difficult for numbers to convey the human costs of the crisis.

The human and economic costs call for orienting development models and actions towards strategies meant to build up the resilience of societies – that is, strategies that increase the ability of a socioeconomic system to adapt and cope with perturbations and changing conditions without compromising people's capabilities. In a world where global shocks are getting more severe and affecting more people, including many poor people who were previously little affected, the resilience of socioeconomic systems is a fundamental facet of a country's development path. And it should be a central objective of national development strategies and thus of development assistance.

¹ DFID 2009 and World Bank 2009a.

² World Bank 2009b.

1.1 THE PARADOX OF DEVELOPMENTAL ASSISTANCE TO FRAGILE STATES

In recent years, fragile countries have emerged as a core priority for the development community because of their low developmental outcomes and because of severe human rights violations.³ This group, characterised by deep failures in their state institutions, poses great global development challenges to the international community. Fragility imposes human costs that are substantial, widespread and persistent. Living in a fragile country means suffering severe deprivations of the state's basic services and safeguards to security and human rights. It also produces negative spillovers, both regional and global.

Fragile countries create greater challenges for development assistance than other settings do. They tend to be difficult partners. Aid flows can trigger perverse effects. And aid effectiveness is hindered by the weakness of national governments' capacity. Dealing with fragile state institutions can mean interacting with illegitimate, unrepresentative or weak governments – or with several actors in competition. In these settings, aid is less likely to reach the targeted populations or support a long-term perspective.

Donors can even hinder the transition from fragility. Indeed, aid flows – excluding technical assistance – can reduce the likelihood of exiting from the group of fragile countries.⁴ Such a finding, echoed by Dambisa Moyo in her bestselling *Dead Aid*, signals room for improving international engagements with fragile countries.⁵ In these contexts, state-building becomes the central objective of international engagement in fragile states, as asserted in the Principles for Good International Engagement in Fragile States and Situations.⁶

Performance-based aid allocations – loosely defined as rewarding good performers with growing aid flows – have left fragile countries as “aid orphans” (box 1.1). Sub-Saharan African fragile countries are even more likely to be left behind. Of 48 fragile countries, 29 Sub-Saharan African countries absorbed 49% of total net official development assistance (ODA) flows in 2000-07.⁷

In West Africa, several countries have never come close to state consolidation, and the region is one of the poorest and least stable in the world. Between 1998 and 2005, at least 35 armed groups were active in Côte d'Ivoire, the Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal and Sierra Leone.⁸ Sudan and the Great Lakes region have experienced the most recent genocides. And the Horn of Africa hosts an emblematic failed state, Somalia.

Sub-Saharan Africa thus predominates among fragile countries. State fragility might have a well-defined common historical root (chapter 3). And a focus on the region could improve understanding of the development challenges that fragility poses.

The international community must overcome the paradox of allocating less aid to countries most in need while adapting development assistance practices to the specific conditions, characteristics and dynamics of fragile countries. Fragile countries represent the test-bed of the EU's commitment, reaffirmed by the European Consensus on Development, to delivering better and more aid. This process will not be easy. In the current economic and financial crisis, EU countries have to finance their growing public deficits. And the recent enlargement of the EU makes it more difficult to reach a consensus on fund allocations.

³ Several classifications and rankings of state fragility exist. Unless otherwise specified, this Report adopts the (not official) list of fragile and postconflict countries used for the *Annual Report 2008 on Resource Flows to Fragile and Conflict-Affected States* (OECD 2009). This is a compilation of three lists: the bottom two quintiles of the Country Policy and Institutional Assessment (CPIA) 2007, the Brookings Index of State Weakness in the Developing World 2008, and the Carleton University Country Indicators for Foreign Policy (CFIP) 2007 index. This list of fragile states includes Afghanistan, Angola, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Iraq, Kenya, Kiribati, Laos, Liberia, Mauritania, Myanmar, Nepal, Niger, Nigeria, Democratic People's Republic of Korea, Pakistan, Papua New Guinea, Rwanda, São Tomé and Príncipe, Sierra Leone, Solomon Islands, Somalia, Sudan, Tajikistan, Timor-Leste, Togo, Tonga, Uganda, Uzbekistan, Vanuatu, Palestinian Administrated Areas, Rep. of Yemen and Zimbabwe. As it is discussed in the next section, the compilation of a list of fragile states is politically and analytically controversial. The ERD 2009 does not officially endorse this classification, which is used only for operational purposes.

⁴ Chauvet and Collier 2008.

⁵ Moyo 2009.

⁶ OECD/DAC 2007.

⁷ OECD, DAC Statistics Online Database, 2000-07.

⁸ UNODC 2009.

Box 1.1: Aid effectiveness and allocations to fragile states

By Mark McGillivray, Australian Agency for International Development

Would economic growth in fragile countries be lower, higher or about the same in the absence of aid? Are fragile states, collectively and individually, underaided, overaided or appropriately aided from a growth perspective?

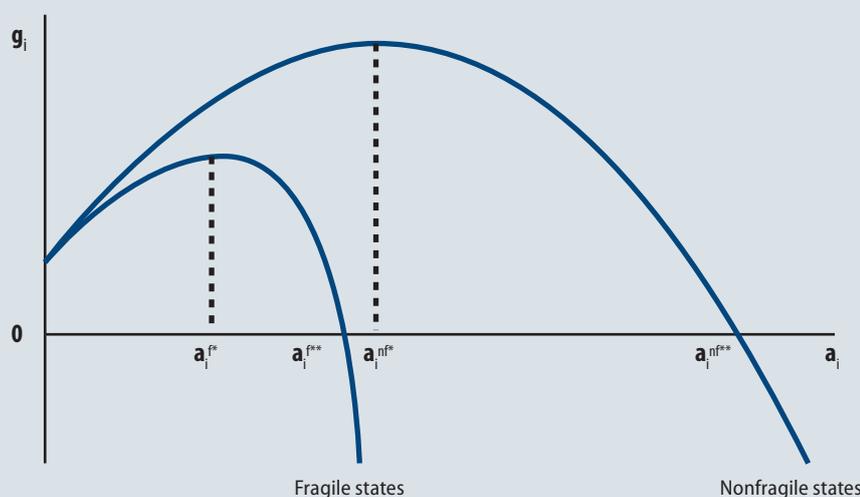
The literature on the impact of aid on economic growth has come a long way over the last 10 years, owing to better data, more incisive underlying theory and the application of more rigorous empirical methods.⁹ This is not to say that the literature is not without limitations, as many remain. Arguably the main weakness is that it has not been able to shed much light on the channels for aid to affect growth.

A robust conclusion has emerged from the literature, one drawn by practically all recent studies: the incremental relationship between aid and growth follows an inverted U-shaped pattern, with higher levels of aid associated with higher rates of growth up to a certain threshold level of aid, beyond which more aid is associated with lower growth. The threshold has been termed the “growth-efficient” level of aid. At this level, aid’s incremental impact on per capita income growth is maximized in recipient countries.

The finding of an inverted U-shaped relationship between aid and growth has particular resonance for fragile states. An interpretation of the declining incremental impact of aid, beyond the growth-efficient level, is that there are absorptive capacity constraints in recipient countries. The constraints are thought to arise for several reasons, principal among them the low quality of policies and institutional performance, a basic characteristic of fragile states.

Against this background, it has been hypothesized by researchers and assumed by some policy-makers that the aid-growth relationships in fragile and other (nonfragile) states is as depicted in box figure 1. For fragile states, the relationship between aid and growth is expected to be as for nonfragile countries, but with a lower growth-efficient level of aid (a_i^{nf*}) beyond which the incremental contribution of aid to growth becomes negative and the overall incremental contribution of aid to growth is lower at all levels of aid.

Box figure 1: Incremental impacts of aid on growth



Note: a_i refers to some measure of aid to recipient country i , g_i refers to i 's real per capita GDP growth, a_i^{nf*} is the growth efficient level of aid for nonfragile states, and a_i^{nf**} is a level of aid beyond which the incremental contribution of aid to growth in these states is negative.

McGillivray and Feeny (2008) examine aid and growth data for 1977-2001 to establish whether there is empirical support for the relationships in box figure 1. They deem a state to be fragile if it belongs to the bottom two quintiles of CPIA scores. For countries in the bottom quintile, the “highly fragile states,” as McGillivray and Feeny (2006) term them, official development assistance (ODA) contributed 1.37 percentage points to real per capita GDP growth over the period. Compare that with 2.47 percentage points in the other fragile states, those in the second bottom CPIA quintile.



⁹ Surveys of this literature can be found in Morrissey (2001), Clemens et al. (2004) and McGillivray et al. (2006).

McGillivray and Feeny (2008) is the only aid-growth study that has looked specifically at fragile states, although a number of studies have looked at aid and growth in Sub-Saharan African countries.¹⁰ Gomanee et al. (2005) looked at aid to 25 Sub-Saharan African countries over 1970-97 and found that each percentage point increase in aid as a ratio of GNP contributes on average 0.25 percentage points to these countries' growth rates. Clemens et al. (2004) looked at the short-run impact of aid, finding that it raised average annual per capita income growth in Sub-Saharan Africa by at least 0.5 percentage points or more between 1973 and 2001. Lensink and Morrissey (2000) found that although aid had a weaker impact of growth in Sub-Saharan Africa than elsewhere, this impact was positive and significant. These studies would appear to provide some support for the results reported in McGillivray and Feeny (2008).

McGillivray and Feeny (2008) and Feeny and McGillivray (2009) also provide estimates of a_i^{f*} and a_i^{nf*} for highly fragile states (13.88% of GDP) and other fragile states (38.38% of GDP). Comparing these amounts with the actual ODA from bilateral and multilateral agencies in 2004 suggests that fragile states are underaided from a growth-efficiency perspective (box table 1). The most underaided countries relative to GDP in the highly fragile group were Côte d'Ivoire and Nigeria. Allocating growth-efficient levels of aid, compared with actual allocations in 2004, would have led to an average growth gain for all fragile states under consideration of 1.92 percentage points. Not all fragile states appeared to be underaided, however. Ten fragile states received more aid than the growth-efficient amount in 2004. Of all fragile states under consideration, the most overaided from a growth perspective were Burundi and the Solomon Islands.

Box table 1: Aid to fragile states, 2004

	Highly fragile states	Other fragile states	All fragile states
ODA (\$ millions)	6,629	2,719	9,348
Growth-efficient ODA (\$ millions)	14,512	10,506	25,018
Growth at actual ODA (% average)	-0.46	3.43	1.25
Growth gain from growth-efficient aid (% average)	1.43	2.47	1.92
Countries receiving more than growth-efficient aid	8	2	10
Countries receiving less than growth-efficient aid	9	13	22

Note: highly fragile states are in the bottom CPIA quintile; other fragile states are in the second bottom CPIA quintile.

McGillivray and Feeny (2008) and Feeny and McGillivray (2009) emphasise that the growth-efficient levels of aid provide only a rough guide to the amounts of aid that donors should provide to fragile states. They also emphasise that donors have many other valid developmental objectives that justify deviations from growth-efficient amounts. Their results suggest, however, that donors need to carefully consider country allocations that differ substantially from growth-efficient amounts, asking whether these deviations can be justified on developmental criteria.

¹⁰ Note that, depending on the definition used, approximately half of all fragile states are in Sub-Saharan Africa.

1.2 THE EU'S DEVELOPMENT POLICY IN FRAGILE COUNTRIES

EU and member state development assistance has great potential. For most developing countries, Europe is a main donor, trading partner, investor and migrant destination. And the EU is an important political, diplomatic and economic block. European countries also have a great responsibility towards fragile countries, with fragility's roots in colonisation and decolonisation, at times magnified by the irresponsible practices of foreign companies and the illicit and criminal trafficking to and from Europe.

The potential for Europe's action should not, however, be overestimated. The world order has become more multipolar, with emerging political and economic centres having joined the oldest actors. The US-China-EU configuration has become pivotal in the international system. In addition to the main international organisations, other countries have been engaging with fragile states, from the United States to East Asian and Arab Gulf countries. Moreover, Europe's initiatives to tackle state fragility, such as its assistance to state- and peace-building, can be perceived as intrusive and not politically neutral by partner countries. They can also affect processes and dynamics that are intrinsically internal. Finally, internal resistance and constraints can weaken the EU commitment to development policies. The ageing population, the huge debt accumulated in the crisis and the EU's enlargement can strengthen the incentives to divert public resources from international development cooperation to domestic uses.

With this situation as background, the ERD 2009 is about state fragility in Sub-Saharan Africa and EU development policies in situations of state fragility. It analyzes the room for improvement in the EU's current engagement with fragile countries and the potential for EU development policies to assist national stakeholders in overcoming state fragility. The focus is on Sub-Saharan Africa because this region appears to be particularly lagging behind in the sphere of state consolidation and because it hosts the majority of countries with fragile state institutions.

This effort is consistent with a resilience-based approach in the design of development priorities and policies. State institutions and their ability to mobilise domestic resources are a core element of the resilience of a socioeconomic system. They should maintain internal order, guarantee citizens' security, control the territory, deliver social services, enforce regulations and protect against and adapt to individual and collective risks. State institutions thus influence citizens' well-being and its variations in the face of perturbations and changes.

1.3 STRUCTURE OF THE REPORT

The ERD 2009 contributes to the goal of forging a new European approach to overcome state fragility in Sub-Saharan Africa through three main steps. The first is the analysis of the meaning of state fragility as well as its scope and costs in Sub-Saharan Africa. The report delineates the economic characteristics of fragile countries, discusses the economic factors that can affect the functioning of state institutions, governance and sociopolitical stability, and reviews the interpretations proposed by the literature on the historical and political roots of state fragility in Africa. In the second part of the report, the nexus between socioeconomic resilience and state fragility is investigated from a theoretical point of view and is evaluated in relation to the impact of the 2008-09 global economic crisis on fragile countries. In the final part, policies are discussed: chapter 8 provides an overview of EU engagement in fragile countries and an analysis of security policies. It discusses the challenges and potentialities of external actors' assistance to support state building in partner countries and it attempts to identify good practices on the basis of international experiences in this field. The last chapter proposes the criteria and priorities for the EU's intervention in fragile situations.

2. WHAT DOES STATE FRAGILITY REFER TO?

The existing literature abounds with definitions of “fragility” (box 1.2), and the use of the expression “fragile state” is highly contentious. Paul Collier, for instance, did not initially disclose the list of countries that form the famous Bottom Billion – which is usually equated with the group of fragile countries¹¹ – as he notes that “this is not a company that countries are keen to be in, and because stigmatising a country tends to create a self-fulfilling prophecy”.¹²

Despite the definitional differences, there is agreement on some basic points across the academic and policy literature. Stewart and Brown (2009) find that all existing definitions are built around three main dimensions of fragility: authority, service and legitimacy failures that occur, respectively, when the state fails to protect its citizens from violence, to provide basic services to all citizens and to be recognised as legitimate by its citizens.

This vision of state fragility is indirectly embodied by the Organisation for Economic Co-operation and Development (OECD) definition in the Principles for Good International Engagement in Fragile States and Situations: “States are fragile when state structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations”.¹³ The OECD proposed to move the focus on the pivotal role of legitimacy and citizens’ expectations by adjusting the definition of fragile states as those “unable to meet its population’s expectations or manage changes in expectations and capacity through the political process”.¹⁴

Box 1.2: How fragility made its way in to the development discourse

The 1990s and early 2000s were marked by a progressive shift away from project-based assistance towards budget support – and by a growing recognition of how the policies in recipient countries mediate the impact of aid programmes.¹⁵ The effect of these two major changes was an increase in aid selectivity. The growing emphasis on aid selectivity, reflected in the Monterrey Consensus, led to a substantial shift in bilateral aid allocations.¹⁶ Donors faced a challenge: aid selectivity came at the high cost of reducing aid where it was most needed, albeit where it was possibly least effective. So, some countries became aid orphans, as countries characterised as having poor governance recorded sharply declining and volatile aid flows.¹⁷

Thus, the growing concern about fragility “appeared as a political response to an operational issue” (Guillaumont and Guillaumont Jeanneney 2009). Donor agencies faced troubles in interacting with “countries where there is a lack of political commitment and insufficient capacity to develop and implement pro-poor policies”.¹⁸ This definition provided by the OECD Development Assistance Committee (DAC) shows that the notion of a fragile country is intrinsically relational, as it refers to a misalignment between a country’s political will – or capacity – and the donor community’s universal priorities.

The differences in definitions are partly due to the extreme political sensitivity of a concept which – either implicitly or explicitly – cast doubts on the political priorities of a country, or on its ability to pursue them. Fragile countries were regarded – even before the 9/11 attack on the United States – as a possible haven for terrorist groups, given their limited control over their territories. Security and development are closely intertwined in fragile countries, and some authors call for a broader set of tools, including military interventions, to deal with the development challenge that these countries face.¹⁹

This is why the OECD Development Assistance Committee also began to refer to fragile situations, broadening the focus from the state alone.²⁰ Its Principles for Good International Engagement assert that the long-term goal of an engagement in these countries is “to help national reformers to build effective, legitimate and resilient state institutions, capable of engaging productively with their people to promote sustained development.”²¹ The reference to national reformers helps to convey the idea that state-building is an internal process, which can be only marginally influenced by external actors.



¹¹ Zoellick 2008.

¹² Collier 2007, p. 7.

¹³ OECD/DAC 2007, p. 2.

¹⁴ OECD 2008.

¹⁵ Chhotray and Hulme 2009.

¹⁶ Dollar and Levin 2006.

¹⁷ Levin and Dollar 2005, Fielding and Mavrotas 2008.

¹⁸ OECD/DAC 2006.

¹⁹ Bourguignon et al. 2008, Collier 2009.

²⁰ OECD/DAC 2007.

²¹ OECD/DAC 2007, p. 1; emphasis added.

One related change in the definition is a shift from a definition of fragility that – albeit implicitly – focuses on the relationship between a country and the donor community, to definitions that try to identify the substantive features of a fragile state. The Council of the European Union acknowledged that:

Fragility refers to weak or failing structures and to situations where the social contract is broken due to the state's incapacity or unwillingness to deal with its basic functions, meet its obligations and responsibilities regarding the rule of law, protection of human rights and fundamental freedoms, security and safety of its population, poverty reduction, service delivery, the transparent and equitable management of resources and access to power.²²

The reference to the social contract, the outcome of never-ending bargaining between the society and the state, substantially broadens the relevance of the pervasive effects of fragility. A concept of state fragility based on a population's expectations does not take a stance on the content of the social contract. And it introduces an interesting dynamic aspect in the definition, as fragility can be regarded as the inability to manage the perturbations that can affect the content of the social contract. Such a focus is in line with the argument by Balamoune-Lutz and McGillivray, who argue that the term fragile state should be used just to "delineate states only in terms of their likelihood of breaking up or vulnerability to downside shocks,"²³ which is precisely what the OECD-DAC argues. The break-up of the social contract by the misalignment between the ability of the state to meet the expectations of the population creates an element of latent instability, which may lead to a conflict, which, in turn, represents the ultimate manifestation of fragility.

Kaplan pushes this argument further by defining fragile countries on the basis of the features in the design of the state, and whether there is a significant mismatch between formal and informal institutions. According to Kaplan, borders that forces multiple identity groups with little common history to work together and legal and political systems that do not reflect values, belief and ways of organising society can easily detach the state from the population it is meant to serve, and such sociopolitical conditions are unlikely to produce government able to satisfy citizens' expectations.²⁴

One further definition is Engberg-Pedersen et al. who dispose of the exclusive focus on the state that characterises the definitions revised so far, and define a situation of fragility as "institutional instability undermining the predictability, transparency and accountability of public decision processes and the provision of security and social services to the population".²⁵

In line with this argument, Ikpe relates fragility to "the capacity of the state to adapt to changed circumstances, protect citizens, absorb shocks and manage conflict without resort to violence".²⁶ The sudden disruption or gradual erosion of state capacity to meet citizens' expectations, to adopt a responsive political process to manage changes in the state-society relationships or to maintain the control of its territory are thus key factors of state fragility. It is worth underscoring that legitimacy, authority and service failures, though conceptually distinct, are mutually reinforcing and interlinked. For instance, even if citizens' expectations are culturally and country specific, the capacity to ensure basic needs and human rights of the population can be considered a condition for the legitimacy of state institutions.

Fragility exhibits a large variation both in qualitative and in quantitative terms across countries. It can be triggered by different factors – from a violent conflict to a gradual erosion of state capacity and legitimacy. And it can display varying degrees of intensity. State functions are most at risk to break down in periods of political and economic transitions, extreme political instability, political and state reconstruction in conflict-affected countries, early stages of state formation and protracted periods of exposure to frequent and severe external perturbations and shocks. Badly managing these delicate phases can prompt multiplied and self-fuelling forces towards the ultimate manifestations of state fragility: conflicts and authoritarian regimes with massive and systematic repression and with human rights violations of population groups.

²² Council of the European Union 2007.

²³ Balamoune-Lutz and McGillivray 2008.

²⁴ Kaplan 2008. For a critical discussion of Kaplan's arguments, refer to chapter 3.

²⁵ Engberg-Pedersen et al. 2008, p. 6.

²⁶ Ikpe 2007, p. 86.

Heterogeneity is, therefore, a core feature of fragility's manifestations and of states labelled as "fragile." Some authors also observe that this concept is "broad" in the sense that it groups countries that are difficult to compare.²⁷ As Brinkerhoff argues, "fragile states are dynamic and move along trajectories from stability toward conflict, crisis and/or failure; and emerge from crisis toward recovery and stability".²⁸ This implies that each country can face specific constraints to capacity and political will. Some authors go further, arguing that it is not even possible to draw a convincing line to separate fragile countries from nonfragile ones and raising doubts about the gains from including some countries under the broadly defined group of fragile countries.²⁹ Briscoe observes "there is little to hold state fragility together other than its symptoms: poverty, insecurity, proneness to conflict, corruption".³⁰

Indeed, the debate on fragility has returned the focus on state institutions in the development process, and underscored the need to adapt external interventions and priorities on the basis of deeply rooted knowledge of the local political and economic context. The heterogeneity of fragility's manifestations and degrees implies that deeply rooted knowledge of the local context is critical to ensuring successful external engagements in fragile countries.

Even in its worst forms of state failure, fragility does not imply a political vacuum, for informal institutions can – at least partially – perform some functions of the state. Engberg-Pedersen et al. argue that "in fragile situations where the state is absent or very weak, nonstate authorities often perform state-like functions with respect to the provision of security and social services,"³¹ an observation is in line with the theoretical arguments by Dixit.³² For instance, the provision of law and order in Somalia is ensured by Islamic courts, and "shari'a courts perform an instrumental function in creating legal order [...] under anarchy, dispute resolution is free and speedy by international standards," as Leeson observes.³³ Though the current condition is far from ideal, it has improved compared with the one before 1991, and this improvement is not limited to the judicial system. The 2001 *Human Development Report* for Somalia observes that there are more primary schools in the country today than in the late 1980s, and the private sector has been providing water and electricity.³⁴

These observations show that external actors should not ignore such institutions once they engage in a country in a fragile situation. Indeed, a narrow focus on the state alone would not produce a well-grounded understanding of fragility and the best ways to mitigate it.

3. THE COSTS OF STATE FRAGILITY IN SUB-SAHARAN AFRICA

The crucial role of the state in shaping socioeconomic resilience, human capabilities and well-being is mirrored by the poor developmental outcomes of countries labelled as "fragile" due to the failures of their state institutions. The mechanisms leading to poor development outcomes and to problematic relationships between donors and recipient governments are differentiated. State fragility can evolve along different trajectories because state formation, state functioning and stability are the outcome of a complex process ranging from the shared sense of citizenship to the control of the territory. Despite this differentiation, the economic, security and development costs of fragility tend to be substantial, widespread and persistent in different settings.

3.1 A HEAVY TOLL ON HUMAN DEVELOPMENT

A synthetic – but revealing – account of the direct costs of fragility can be gained from human development in fragile countries. Sub-Saharan African fragile countries are overrepresented among those with a poor record in terms of human development. With respect to the Human development index (HDI) value, they rank between 128 for São Tomé and Príncipe down to 179 for Sierra Leone, the last country in the list of those for which the index is available. The average HDI for fragile countries stands at 0.459 in 2006 (0.329 for Sierra Leone and 0.643 for the São Tomé and Príncipe).

²⁷ Faria and Magalhães-Ferreira 2007.

²⁸ Brinkerhoff 2007, p. 3.

²⁹ Easterly 2009.

³⁰ Briscoe 2008, p. 1.

³¹ Engberg-Pedersen et al. 2008, p. 23.

³² Dixit 2004.

³³ Leeson 2007, p. 705.

³⁴ UNDP 2001.

Table 1.1: Human development in Sub-Saharan African fragile countries

Country	Human Development Index rank ⁽¹⁾	Human Development Index value ⁽¹⁾	Life expectancy at birth ⁽¹⁾	Adult literacy rate ⁽²⁾	Under-five mortality rate (per 1,000) ⁽³⁾	Maternal mortality rate (per 100,000 live births) ⁽⁴⁾
Angola	157	0.484	42.1	67.4	202.7	1,400
Burundi	172	0.382	48.9	59.3	164.4	1,100
Cameroon	150	0.514	50.0	67.9	142.6	1,000
Central African Republic	178	0.352	44.0	48.6	178.5	980
Chad	170	0.389	50.4	25.7	209.7	1,500
Comoros	137	0.572	64.5	74.2	61.3	400
Congo, Dem. Rep. of	177	0.361	46.1	67.2	121.9	1,100
Congo, Rep. of	130	0.619	54.5	86.0	128.6	740
Côte d'Ivoire	166	0.431	47.7	48.7	196.4	810
Djibouti	151	0.513	54.2	...	123.7	...
Equatorial Guinea	115	0.717	50.8	87.0	166.9	680
Eritrea	164	0.442	57.2	...	73.6	450
Ethiopia	169	0.389	52.2	35.9	129.3	720
Gambia, The	160	0.471	59.0	...	115.3	690
Guinea	167	0.423	55.3	29.5	145.2	910
Guinea-Bissau	171	0.383	46.0	62.8	194.5	1,100
Kenya	144	0.532	52.7	73.6	102.4	560
Liberia	176	0.364	45.1	54.4	138.2	1,200
Mauritania	140	0.557	63.6	55.2	119.4	820
Niger	174	0.370	56.2	29.8	170.2	1,800
Nigeria	154	0.499	46.6	71.0	185.9	1,100
Rwanda	165	0.435	45.8	64.9	153.4	1,300
São Tomé and Príncipe	128	0.643	65.2	87.5	94.0	...
Sierra Leone	179	0.329	42.1	37.1	145.8	2,100
Somalia	n.c.	n.c.	47.5	...	177.9	...
Sudan	146	0.526	57.8	60.9	109.6	...
Togo	159	0.479	58.0	53.2	96.7	510
Uganda	156	0.493	50.5	72.6	120.9	550
Zimbabwe	n.c.	n.c.	41.7	90.7	92.3	880
Sub-Saharan African fragile countries		0.469	51.2	59.2	138.3	976
Sub-Saharan African nonfragile countries		0.545	53.2	66.4	97.5	614
Sub-Saharan Africa		0.500	52.2	62.9	123.2	824

Note: ... denotes not available data; n.c. stands for not classified;⁽¹⁾ data refer to year 2006;⁽²⁾ data refer to individuals ages 15 and older, for 2006;⁽³⁾ data refer to 2008;⁽⁴⁾ data refer to 2000, adjusted based on reviews by UNICEF, WHO and UNFPA to account for well-documented problems of underreporting and misclassifications.

Source: ERD elaboration on UNDP (2008) and OECD and AfDB (2009).

The human, social and economic costs of fragility are not limited to the poor record of fragile countries in the three components of the HDI. Fragile countries have significantly poorer achievements for the broad set of MDGs in relation to other developing countries.³⁵ Indeed, there is a strong negative correlation between fragility and MDG performance: fragile states in Sub-Saharan Africa are furthest from achieving the Millennium Development Goals (MDGs) by 2015.

By adopting a classification of fragile states based on the 2006 CPIA, Harttgen and Klasen find that fragility is clearly associated with much poorer development outcomes in terms of poverty, undernutrition, education enrolment and under-five mortality³⁶. The poverty headcount in 2006 for the CPIA list of fragile states is more than three times higher than for the nonfragile states. Primary education completion rates, the number of underweight children, under-five mortality and the employment-to-population ratio reveal that fragile states typically have a much poorer human development record than nonfragile states. Sub-Saharan African fragile states top the list on under-five mortality and the unemployment-to-population ratio. The performance over 2000-06 confirms these findings.

At the same time, development indicators – such as poverty, life expectancy and under-five mortality rates – display a certain differentiation within the group of fragile countries. Although the aggregate difference between fragile and nonfragile countries is substantial, it masks considerable heterogeneity. Only in some countries does the recent high rate of growth seem to have been transmitted to developmental goals – certainly not in Guinea, which still has an adult literacy rate of 29%, or in Angola, where under-five mortality in 2008 was above 20% – 203 per 1,000 (table 1.1).

Two recent editions of the *Global Monitoring Report* show that fragile countries are not progressing towards the MDGs, or are even moving backwards.³⁷ Compared with middle-income and low-income countries, fragile states based on the CPIA classification showed considerably less progress towards the MDGs between 1990 and 2006.

A slightly different picture is provided by Harttgen and Klasen, who compare fragile countries' performance in achieving MDGs by adopting different fragile country classifications³⁸. They find that fragile countries are performing as well as other developing countries on absolute progress towards the MDGs, though they are still substantially behind.³⁹ Changes in MDG indicators between 2000 and 2006 show great heterogeneity across fragile countries and across indicators within fragile countries, while patterns of fragile and nonfragile countries show no systematic differences. If the analysis focuses instead on Sub-Saharan African fragile countries, the pattern changes and state fragility appears to matter more to MDG progress. Figures 1.1 and 1.2 show that Sub-Saharan African fragile countries lag behind the continent in both relative and absolute changes towards the MDGs. More disappointing performances are experienced by countries where state fragility is particularly severe. Countries with a low 2007 CPIA score in all dimensions – economic management, structural policies, social inclusion/equity, public sector management – are overrepresented in Sub-Saharan African countries.

³⁵ See background paper by Harttgen and Klasen to have a complete picture of how different definitions affect the results.

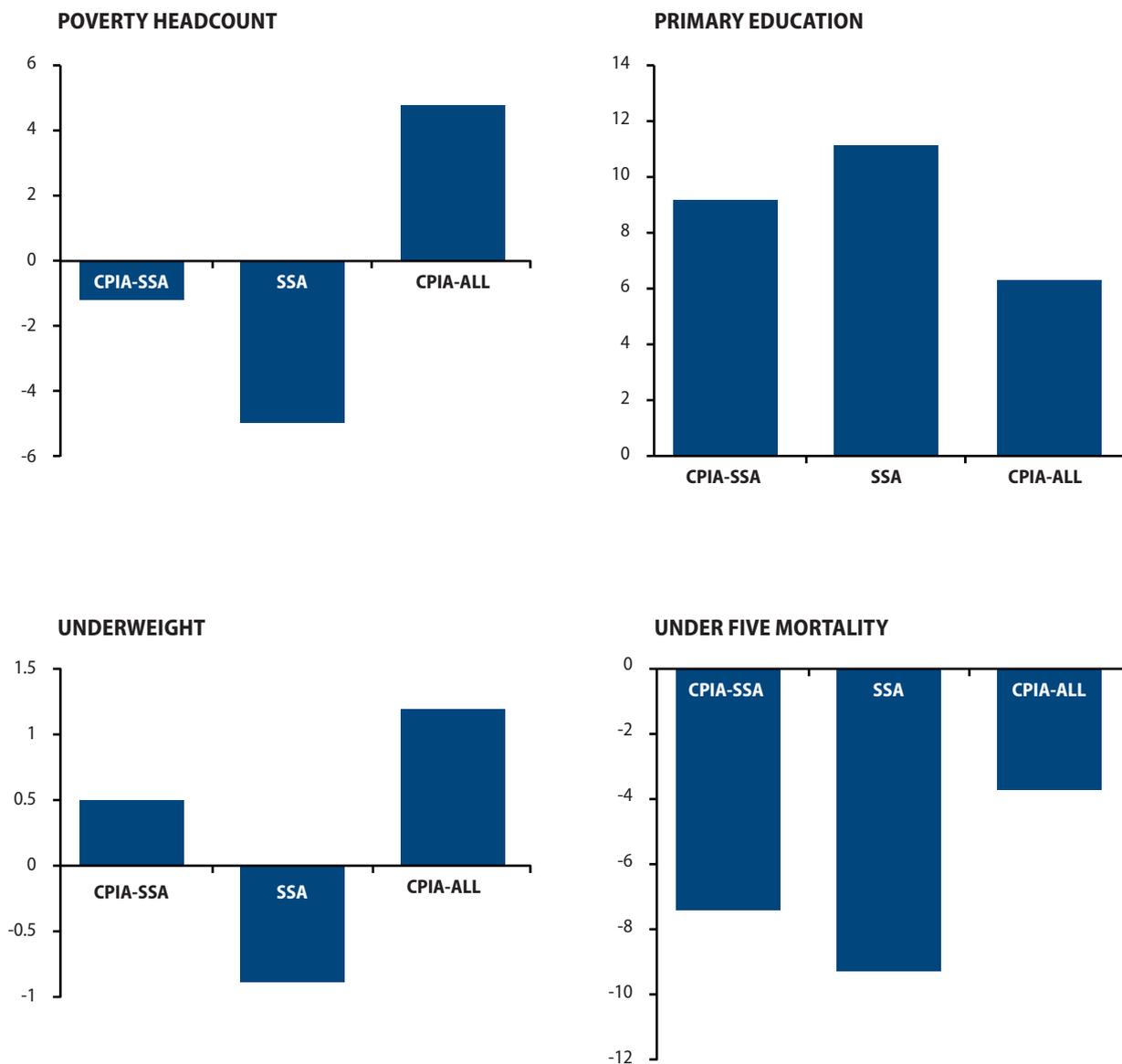
³⁶ Harttgen and Klasen 2009.

³⁷ World Bank 2007, 2009a.

³⁸ Harttgen and Klasen 2009.

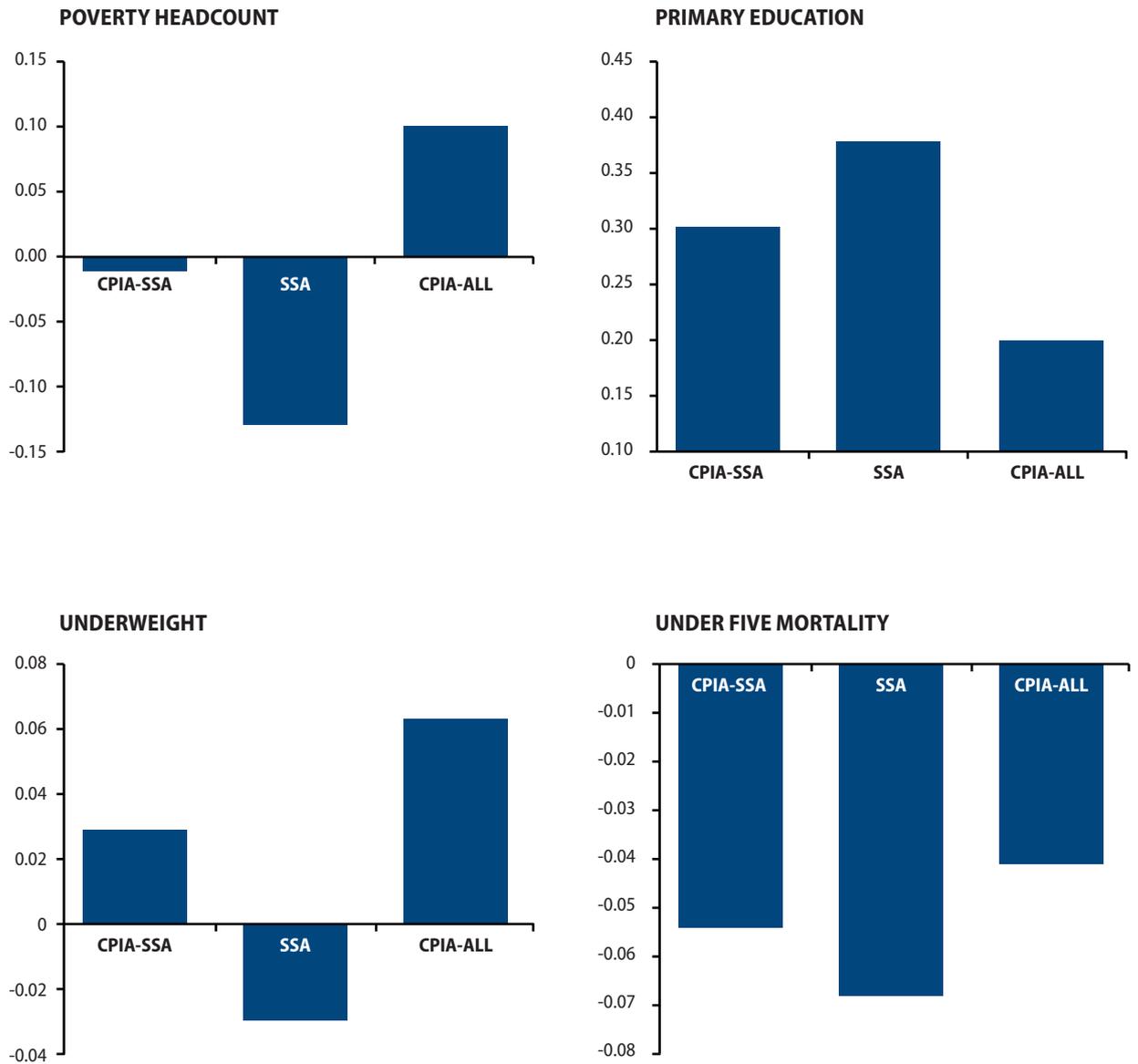
³⁹ Harttgen and Klasen 2009. Note that the conclusion by Harttgen and Klasen (2009) could be exposed to a bias due to missing data, because the relevant information to assess the progress towards the Millennium Development Goals is missing for a large number of fragile countries. Assuming that the countries with missing data are characterised by a worse than average record, even the absolute progress towards the set of goals could be poorer for fragile countries.

Figure 1.1: Absolute changes in key MDG indicators, 2000-06



Note: CPIA-SSA are Sub-Saharan African countries included in the 2007 CPIA list (with a CPIA score of less than 3.2); CPIA-All are countries that show a CPIA score of less than 3.2 on any of the CPIA sub-lists (economic management, structural policies, social inclusion/equity, public sector management) in 2007; SSA: all Sub-Saharan African countries; for the calculation of the means of each indicator by fragility status, changes in poverty headcount, primary education completed, underweight and employment to population ratio are measured in percentages; changes in under-five mortality are measured in absolute changes in deaths per 1,000 children.

Source: Harttgen and Klasen 2009.

Figure 1.2: Relative changes in key MDG indicators, 2000-06

Note: CPIA-SSA are Sub-Saharan African countries included in the 2007 CPIA list (with a CPIA score of less than 3.2); CPIA-All are countries that show a CPIA score of less than 3.2 on any of the CPIA sub-lists (economic management, structural policies, social inclusion/equity, public sector management) in 2007; SSA: all Sub-Saharan African countries; for the calculation of the means of each indicator by fragility status, changes in poverty headcount, primary education completed, underweight and employment to population ratio are measured in percentages; changes in under-five mortality are measured in absolute changes in deaths per 1,000 children.

Source: Harttgen and Klasen 2009.

3.2 COSTS ARE SEVERE AND MULTIFACETED

Fragility is also characterised by its severity, including the worst forms of human deprivation and violations of basic human rights to life and security. It often captures the ability of government to fulfil one of its main tasks, such as managing food security, or it can flow into violent conflict and civil war, imposing tremendous human, social and economic costs.

Conflict. Of people in the countries of the Bottom Billion, a proxy for the list of fragile countries, 73% have recently experienced or are in a civil war. Moreover, the risk that these countries fall into civil war in any five-year period is tremendously high – one in six.⁴⁰

The relationship between fragility and conflict is dynamic and complicated. Conflicts may at the same time be an outcome of fragility and one of its driving forces. Fragile countries are often characterised by social exclusion against particular groups (ethnic, religious, owners of natural resources), which can trigger conflicts. But conflicts also undermine the capacity of the state to deliver public services, weakening institutions and slowing economic performance and poverty reduction. The combination of these factors adds to the destabilising forces.

The costs of conflicts are numerous and widespread.⁴¹ Some are direct and can be broadly quantified: deaths, casualties, diseases, internally displaced people, mass migrations. Some are indirect, with conflicts disrupting economic activity, shifting public expenditures from health and education to the military and reshuffling public revenues (from, say, taxes on oil exports, as in the Niger delta crisis). Conflicts can also increase unemployment, especially among young males, increasing the likelihood of crime and the appeal of extremism. After a conflict, often because of less control on the ground, entire regions can be converted to areas of drug cultivation, and drug smuggling is easy (and profitable), so that people might embark on illegal activities rather than return to their (often destroyed) occupations. Some costs cannot be quantified: citizens are often traumatised long after the end of conflicts, but psychological costs are not easily measured.

Here we quantify, to the extent possible and aware of the uncertainties, the main costs for Sub-Saharan Africa.⁴²

Battle deaths can be broadly quantified,⁴³ but most civilian deaths, connected to violence and the spread of disease, cannot – so that even estimating the total number of deaths connected to violent conflicts is difficult. *African Development Report 2009* reports battle and total war deaths in selected African countries: in Angola (1975-2002) there were around 160,000 battle deaths and 1.5 million total deaths, in Burundi (1990-2002) around 7,000 battle deaths and 200,000 total deaths and in the Democratic Republic of Congo (1998-2008) 5.4 million total deaths, making the war the deadliest war since the end of World War II.⁴⁴

Data for internally displaced people, concentrated in the Republic of Congo, Côte d'Ivoire, Somalia and Sudan are easier to obtain and more comparable (table 1.2). Displacement, a cost in itself, also implies the spread of diseases, malnutrition, violence (especially for women, subject to extreme violence and often raped).⁴⁵

⁴⁰ Collier 2007.

⁴¹ Collier et al. (2004) claim that civil wars last about seven years on average but that it takes around 21 years to return to the prewar income. The total cost of civil war is calculated at almost \$3 billion a year.

⁴² See Reynal-Querol 2009 and AfDB 2009 for an analysis of causes of conflicts.

⁴³ Battle-related deaths represent on average less than 30% of total conflict-related deaths.

⁴⁴ AfDB 2009, p. 12.

⁴⁵ AfDB 2009.

Table 1.2: Refugees and internally displaced people, 2008

Country of origin	Total refugees	Internally displaced persons protected or assisted by UNHCR	Total population of concern
Angola	171,393	0	185,186
Burundi	281,592	100,000	483,626
Cameroon	13,870	0	16,803
Central African Republic	125,106	197,000	323,357
Chad	55,105	166,718	267,222
Comoros	378	0	418
Congo, Dem. Rep. of	19,925	0	25,069
Congo, Rep. of	367,995	1,460,102	1,918,424
Côte d'Ivoire	22,227	683,956	737,792
Djibouti	650	0	716
Equatorial Guinea	384	0	431
Eritrea	186,398	0	201,094
Ethiopia	63,878	0	95,552
Gambia, The	1,352	0	2,489
Guinea	9,495	0	11,517
Guinea-Bissau	1,065	0	1,342
Kenya	9,688	404,000	762,617
Liberia	75,213	0	88,413
Mauritania	45,601	0	53,421
Niger	796	0	1,067
Nigeria	14,169	0	24,645
Rwanda	72,530	0	90,428
São Tomé and Príncipe	35	0	35
Sierra Leone	32,536	0	35,480
Somalia	561,154	1,277,200	1,860,373
Sudan	419,248	1,201,040	1,749,536
Togo	16,750	0	22,679
Uganda	7,548	853,000	1,466,792
Zimbabwe	16,841	0	51,639
Sub-Saharan Africa	2,628,765	6,343,016	10,530,951
Sub-Saharan African fragile countries	2,592,920	6,343,016	10,478,161
Sub-Saharan African nonfragile countries	35,844	0	52,789

Source: ERD elaboration on UNHCR Statistical Online Population Database.

Conflicts not only cause a contraction of output – they also destroy infrastructure through bombings and other actions and through lower spending for maintenance and renewal. Financial and human capital tends to leave countries, but to quantify the phenomenon is hard without a counterfactual. During and after conflicts, major changes in the sectoral composition of GDP are recorded.⁴⁶ Indeed, some sectors are more vulnerable to conflicts: higher military spending often means lower spending on education, which has a high cost in the longer term and can have a permanent impact on a country's growth. Another cost, important because of its impact on domestic policy, is the shortening of time horizons of policy-makers and private investors. Coping with persistent conflicts creates a continuous situation of emergency, and governments react with short-term responses.⁴⁷

⁴⁶ Collier 2007

⁴⁷ A related issue is that of the "optimal size" of the military sector in conflict-affected countries (see Acemoglu et al. 2009).

Food insecurity. The role of the state in setting up the institutional and legal framework for food production and distribution and government interventions and reforms can affect both the food availability and the food entitlements of different population groups.

State fragility can become an underlying cause of food insecurity through different channels:⁴⁸

- **Capacity failure:** When a state's delivery capacity fails – or risks failing – a food crisis is more likely. Inadequate provision of basic services can produce this result. Fragile state institutions might be less able to put in place mechanisms that can support food access for the poor or that can protect citizens (both consumers and producers) against the fluctuations in world food prices or against other variations in the source and size of food entitlements, such as cyclical food insecurity linked to the seasonal component of some economic activities.
- **Authority failure:** When a state's authority fails, obstacles in food distribution systems and the incapacity to protect productive assets for farm production and distribution can produce food crises and humanitarian emergencies.
- **Legitimacy failure:** the implementation of social protection systems is a matter not only of capacity but also of the willingness and accountability of the state. Some typical features of illegitimate state institutions (lack of effective forms of democracy, persecution of opponents or population groups, prominent role of the military forces in the government, control of the media) can threaten the food security of large population groups. According to the Nobel laureate Amartya Sen, for instance, a free press is crucial to disseminate information about food crises and to hold government accountable for protecting and ensuring food entitlements.⁴⁹

State fragility and food insecurity are therefore closely linked (table 1.3). In Sub-Saharan African fragile countries, average food intake was 2,093 Kcal per person, compared with 2,303 in other Sub-Saharan African countries, while the undernourishment prevalence was 12 percentage points higher (35% versus 23%). Malnutrition indicators are not only on average lower in fragile countries, but they also reach dramatic peaks: in most Sub-Saharan African fragile countries, undernourishment levels are above 40%, soaring to 68% in Eritrea and 76% in the Democratic Republic of Congo.⁵⁰ The 2008 Global Hunger Index, an aggregated index developed by the International Food Policy Research Institute to measure hunger and malnutrition⁵¹, points out an extremely alarming food and nutrition security situation in 25 Sub-Saharan African countries, 16 on the operational list of fragile states. And at the global level, the 10 countries whose food insecurity has worsened since the beginning of the 1990s include six Sub-Saharan African fragile countries⁵² (Burundi, Comoros, the Democratic Republic of Congo, Guinea-Bissau, Liberia and Zimbabwe). This evidence suggests that state fragility tends to undermine the food and nutrition security situation.

⁴⁸ Stewart and Brown 2009.

⁴⁹ Drèze and Sen 1989.

⁵⁰ FAO 2008.

⁵¹ The Global Hunger Index (GHI) combines three equally weighted indicators: the proportion of undernourished as a percentage of the population, the prevalence of underweight in children under the age of five, and the mortality rate of children under the age of five. (IFPRI 2008).

⁵² IFPRI 2008.

Table 1.3: Food security indexes for fragile countries

Country	Undernourishment prevalence, % ⁽¹⁾	Food availability (Kcal/person/day) ⁽²⁾	Food production index ⁽³⁾
Angola	46	1,880	116
Burundi	63	1,630	98
Cameroon	23	2,230	101
Central African Republic	43	1,900	103
Chad	39	1,980	101
Comoros	...	1,800	95
Congo, Dem. Rep. of	76	1,500	90
Congo, Rep. of	22	2,330	99
Côte d'Ivoire	14	2,520	96
Djibouti	...	2,170	118
Equatorial Guinea	...	...	...
Eritrea	68	1,530	73
Ethiopia	46	1,810	103
Gambia, The	30	2,140	77
Guinea	17	2,540	106
Guinea-Bissau	...	2,050	94
Kenya	32	2,040	102
Liberia	40	2,010	85
Mauritania	8	2,790	98
Niger	29	2,140	97
Nigeria	9	2,600	96
Rwanda	40	1,940	108
São Tomé and Príncipe	...	2,600	99
Sierra Leone	47	1,910	101
Somalia	...	...	...
Sudan	21	2,290	100
Togo	37	2,020	97
Uganda	15	2,380	98
Zimbabwe	40	2,040	84
Sub-Saharan Africa	30	2,212	98
Sub-Saharan African fragile countries	35	2,097	98
Sub-Saharan African nonfragile countries	23	2,367	98

Note: ... denotes not available data; ⁽¹⁾ data refer to 2003-05; ⁽²⁾ data are in kcal per person per day, and are referred to 2003-05; ⁽³⁾ data refer to 2002-04 (1999-2001 average equal to 100).

Source: ERD elaboration on OECD and AfDB (2009) and FAOSTAT.

Violations of human rights: a focus on violence against women. State fragility implies heavy costs, especially for the most vulnerable sections of the society more in need of social protection, such as women, children and the elderly.

The effects on women's well-being are one of the most emblematic manifestations of the severe costs of state fragility. Fragile states are more exposed to violent conflict, and the consequences are not gender neutral, though official numbers are difficult to find beyond anecdotal evidence. In fragile contexts, low economic growth pushes women into income-generating work for longer hours, typically in the informal sector and in agriculture-related activities. War industries developed to finance the conflict can be a new source of income, as with oil, diamonds and other precious metals in Angola, The Republic of Congo, the Democratic Republic of Congo, Liberia, Sierra Leone and Sudan. But economic advances for women can be offset by the closure of other industries and the collapse of government structures and corresponding employment losses. In Angola, Eritrea, Mozambique and Zimbabwe, women lost their formal sector jobs to men returning from conflict. And during conflict, the absence of men leaves many women with the sole responsibility for maintaining the household. And many cannot inherit or claim the property of their deceased husbands.

In Sudan, where war has been a constant since independence in 1956, women and their children have taken a heavy toll. The majority of the displaced and those living in internally displaced persons camps are women with children. Most Sudanese

women, especially in the South, live in extreme poverty, with high rates of illiteracy and limited access to health care and water. Maternal mortality is among the highest in the world, with 1,700 deaths per 100,000 live births for Southern Sudan and 509 for Northern Sudan. And 90% of women in Southern Sudan are illiterate.

Women have also been the victims of gender-based violence, such as forced impregnation through rape. By the end of 2005, when 2.2 million internally displaced persons were living in camps, the situation had become so unsafe for women that they risked being raped every time they left their settlement to go and collect fuelwood.⁵³

In the Democratic Republic of Congo, one of the characteristics of the war has been the indiscriminate use of rape as a weapon of war. Between 1998 and 2003, 51,000 cases of rape were reported in the provinces of South Kivu and in Kalemie. Médecins Sans Frontières reports that 75% of all the rape cases they had to deal with globally were in the Eastern Democratic Republic of the Congo.⁵⁴ The stigma attached to sexual violence is very high. Women fear that, if they go to the police, they will lose any prospect of marriage or that their husbands will abandon them. They also fear that their perpetrators will punish them for reporting the abuse. Widespread sexual violence is profoundly damaging to society, beginning with the victims' dignity and physical and moral integrity. The scale and nature of sexual abuse have also created a serious public health problem, with an increase in HIV and other sexually transmitted diseases. The lack of medical infrastructure, especially in remote areas, has compounded the problem.

In Northern Uganda, according to a 2007 Amnesty International report *Doubly Traumatized* women and girls suffer sexual and gender-based violence and face considerable difficulties in trying to ensure that the perpetrators are brought to justice.⁵⁵ The study, conducted in five districts in 2007, reveals the discrimination women face trying to pursue cases of rape, defilement, domestic violence, assault and other forms of violence.⁵⁶ Amnesty International considers the current justice system in Northern Uganda to be grossly inadequate, particularly in ensuring the protection of women and girls from sexual and gender-based violence.

As these examples show, the violent conflict that marks fragile states affects women in profoundly difficult ways. The violence and loss that they face in the community often impede them from being able to act as full citizens, unable to participate in rebuilding institutions and reforms of the state.

Women can be exposed to severe forms of human rights violations not only in conflict settings, but also when the justice system cannot control illicit and criminal activities. A recent United Nations Office of Drug Control report reveals that a heavy cost for women in West Africa is trafficking for sexual exploitation, often due to the need to repay debts.⁵⁷ In 2006, 570 West African victims of sexual exploitation were detected in 11 European countries, so "if only one in 30 is detected, which seems plausible, this suggests a pool of some 17,000 victims a year".⁵⁸ Prostitution trends seem to be stable over time, though with variation across countries. The value of the sex market is estimated at around \$850 million a year.⁵⁹

3.3 STATE FRAGILITY AND ITS COSTS PERSIST

The limited progress towards the MDGs as well as the expenditure shift during and after a conflict, from education to the military, gives an idea of the long-lasting human, social and economic costs. The persistence of fragility relates to deeply rooted political and institutional characteristics in a country. Thirty-five countries regarded as fragile by the World Bank in 1979 are still fragile today, 30 years later,⁶⁰ whereas the probability of sustained graduation from the group of fragile countries was a mere 1.85% a year over 1977-2004.⁶¹

This trend is consistent with the history of state formation, which in Europe took centuries of battle and profound economic, social, political and technological changes. State-building support from external actors can help consolidate the state, but the process remains internal. In countries where state formation has not yet been completed, overcoming fragility is expected to take longer and be more difficult.

The persistence of state fragility is also mirrored by governance performance and the disappointing evidence of progress in enforcing the rules of law. Poor governance is a symptom and a parameter of state fragility. Fragile countries perform badly on governance indicators (figure 1.3). Most are affected by high political instability, pervasive corruption and little confidence in the

⁵³ WILPF 2006.

⁵⁴ The Guardian 2007.

⁵⁵ Amnesty International 2007.

⁵⁶ Amnesty International 2007.

⁵⁷ UNODC 2009.

⁵⁸ UNODC 2009, p. 7.

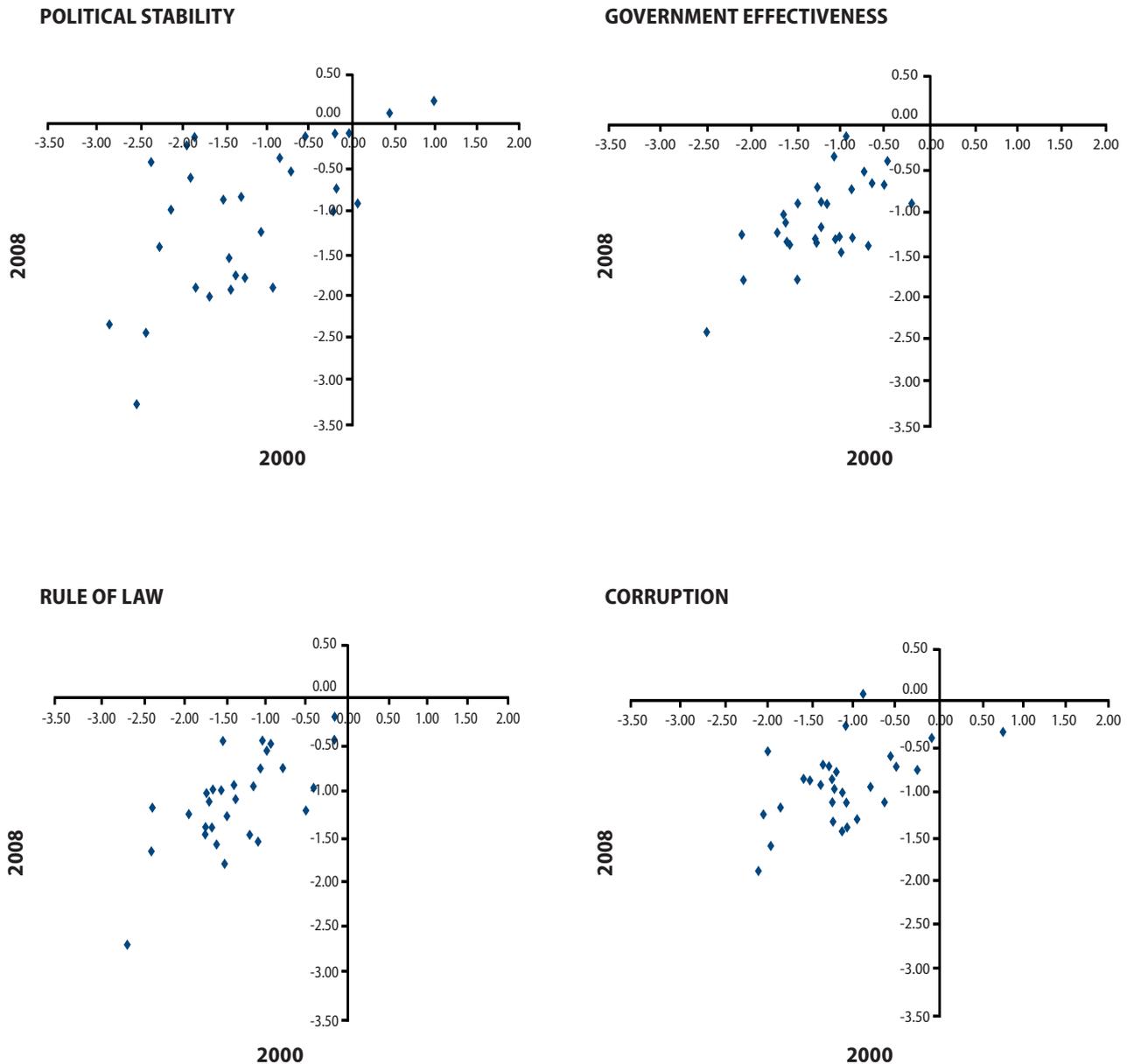
⁵⁹ UNODC 2009.

⁶⁰ OECD 2009.

⁶¹ Chauvet and Collier 2008.

rule of law. Moreover, low levels of governance tend to persist and be highly path dependent: poor government effectiveness or rule of law in 2000 increases the likelihood of low scores in 2008, and many fragile countries had less government effectiveness and weaker rule of law in 2008 than in 2000.⁶²

Figure 1.3: Trends in governance indicators, Sub-Saharan African fragile countries, 2000-08



Note: The governance indicators are measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes. Political stability measures the perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means; government effectiveness measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies; rule of law measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence; corruption measures the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Source: Kaufmann et al. 2008.

The consequences of state fragility for governance can generate forces that resist exiting from fragility. The erosion of checks and balances can create new interests inimical to social well-being. These interests try to defend and reproduce the opportunities for corruption, political interference and rent-seeking activities, further weakening the state's accountability. And in authoritarian

⁶² Kaufmann et al. 2008.

regimes, the state can turn into a vehicle for personal enrichment. Although these settings can be inherently unstable because attempts to appropriate the “spoils” can end in violent changes of government, the underlying predatory dynamics are likely to remain the same.⁶³

3.4 FRAGILE COUNTRIES ARE “BAD NEIGHBOURS”

The costs of fragility also appear to pay little attention to national boundaries. An estimated 80% of the cost of fragility – in forgone economic growth – is borne by neighbouring countries, which suffer from a substantial bad neighbour effect, with growth about 0.6% a year lower per neighbour. So, with 3.5 neighbours per country on average, the losses from the bad neighbour effect can add up to about \$237 billion a year.⁶⁴

Fragile countries exert an adverse influence on their neighbours through other channels. Fragility does not appear to be contagious, but it gives rise to adverse cross-border effects, such as the diffusion of political unrest and instability.⁶⁵ There is no evidence of that fragility leads to a systematic increase in the probability that neighbouring countries experience civil conflict or engage in interstate war.⁶⁶ But there are well-known cases where such an effect played a role, such as the Liberian government of Charles Taylor, who provided mercenaries, money, weapons and infrastructure to rebel groups directed at Sierra Leone – in the hope of gaining control over regional diamond mines and economic networks.

The diffusion of the risk of instability and violent conflict across borders is abetted by extensive regional markets for weapons in Africa.⁶⁷ Africa’s porous national borders facilitate the movement of arms and ammunitions across countries, so that their supply can easily match the geographical distribution of the demand.⁶⁸

Further bad neighbour effects arise from cross-border movements of refugees, mostly to neighbouring countries, imposing substantial costs on the receiving country.⁶⁹ Refugee movements contribute to the spread of malaria across Sub-Saharan African countries.⁷⁰ And refugees moving from Burundi and Rwanda to the Kagera region in northwestern Tanzania exacted a heavy toll on health and schooling.⁷¹

Mass refugee movements can also destabilise neighbouring countries.⁷² And as the recent violence in the Great Lakes region highlights, refugee camps can be a site for organising violent groups. Sub-Saharan African refugees and internal displaced persons originate almost exclusively from fragile countries in the region (see table 1.2).

Other illicit flows, attracted by countries with limited control of the territory and weak rule of law, can also threaten the stability of neighbouring countries, especially those with a low capacity to enforce the law. Guinea-Bissau is the transit centre for cocaine moving from South America to Europe, with considerable security and humanitarian implications.⁷³ At the Eleventh High-Level Meeting of Heads of United Nations Peace Missions in West Africa (Dakar, 4 November 2007), the Heads of Peace Missions in West Africa in 2007 expressed “concern about the alarming increase in drug trafficking and the threat posed to stability both in the country and in the subregion at large.”

⁶³ UNODC 2009, p. 67.

⁶⁴ Chauvet et al. 2007.

⁶⁵ Iqbal and Starr 2008.

⁶⁶ Iqbal and Starr 2008.

⁶⁷ Lambach 2004; Studdard 2004.

⁶⁸ Killicoat 2007b.

⁶⁹ UNHCR 2009.

⁷⁰ Montalvo and Reynal-Querol 2007.

⁷¹ Baez 2008.

⁷² Mandel 1997.

⁷³ UNODC 2007.

3.5 FRAGILE COUNTRIES ARE SOURCES OF GLOBAL THREATS

The adverse effects of fragility can have global reach. Indeed, the concept of state fragility emerged in the development arena at a time of substantial concern about global security threats due to weak and nonexistent state structures.

Still, a causal relationship between state fragility and transnational threats – such as terrorism – has been often contested.⁷⁴ The relationship between fragility and terrorism in Sub-Saharan Africa remains controversial. Not all Sub-Saharan African fragile countries are afflicted by terrorism, least of all by that with transnational objectives and reach. Terrorist groups have also emerged from, and operated in, countries that have strong stable states and a variety of systems of government. Moreover, fragile countries may be of declining importance to transnational terrorists, given that they have diffused in more global networks with autonomous cells in dozens of countries, both poor and wealthy.⁷⁵

The revival of piracy in the Gulf of Aden is portrayed as a textbook example of the transnational threats of fragility.⁷⁶ The European Parliament Resolution of 23 October 2008 on piracy at sea stresses the urgency of this threat, and the EU's military response in the Horn of Africa through the recent Atalanta mission underlines its importance. The link between fragility and piracy is intuitive, yet the conditions of fragility that favour piracy and armed robbery remain underinvestigated.⁷⁷ Piracy in the Gulf of Aden also reveals the limitations of portraying these threats as coming from fragility alone. External factors were crucial in the initial revival of piracy,⁷⁸ as "foreign fishing trawlers aggressively moved into Somalia's rich and unpatrolled waters, at the expense of coastal fishing villages" after the fall of Siad Barre in 1991.⁷⁹ The grievance of Somali fishers against foreign trawlers – and against the alleged dumping of toxic wastes in their waters.⁸⁰ – falls short of explaining the surge in piracy.⁸¹ But it suggests that some of the widespread costs of fragility can be generated by the opportunities for profit reaped by outside actors.

Despite contrasts on the causal relationship, the distribution of aid from DAC donors suggests that security ranks high among the criteria for allocations. The first four fragile countries in aid inflows in 2007 were either a pressing security concern – Afghanistan and Iraq – or a big player in highly unstable regions – Ethiopia and Pakistan. These four countries absorbed half the aid directed to fragile countries.⁸²

3.6 FRAGILE COUNTRIES ARE FERTILE LAND FOR ORGANISED CRIME AND ILLICIT TRAFFICKING

As mentioned above, organised crime flourishes in fragile countries, tending to emerge when state institutions are weak. Some activities are high in value added, such as stealing oil or trafficking drugs. Also common are smuggling cigarettes, counterfeiting (especially antimalaria pills), financial fraud, high-tech crime, arms trade, organised sexual exploitation and money laundering. The high monetary value of such activities understates the threat. For cocaine, most of the value is realised outside the country (or region) where it is grown and traded. Some 250 tons of cocaine are trafficked from West Africa to Europe each year, worth some \$11 billion if it were to reach the wholesale market.⁸³ As far as stolen oil and counterfeit cigarettes are concerned, a large share of money remains in the country (or region). Hence, while cocaine trade imposes costs globally, the impact of oil and cigarettes is likely to be more concentrated locally. The environmental impact of stolen oil poses health risks and degrades the quality of life in countries neighbouring the Niger delta. Illegal trafficking of counterfeited medicines is large and particularly involves countries where many people are affected by malaria and AIDS as well as their neighbours. The absence of punishment for such a crime is a symptom of weakness of the state institutions that makes it possible to speculate on people's health.

The risk of the proliferation of high-end weapon technology, such as nuclear, chemical and biological weapons or carrier rockets, is low.⁸⁴ But the proliferation of small arms and other tactical weapons can afflict regional security. The links are clear: groups seeking to challenge the state are the main customers for small arms. Between 1998 and 2004, more than 200,000 small arms were seized or collected in West Africa, at least 70,000 of which were subsequently destroyed. While impressive, these numbers are small in proportion to the estimated number of small arms in the region (7-10 million).⁸⁵

⁷⁴ Chandler (2006) argues that "the idea of failed states as a security threat is [. . .] an exaggerated one," and Hehir (2007), Patrick (2007), Newman (2007) and Stewart (2007) move along similar lines of reasoning.

⁷⁵ See, for example, Korteweg 2008 and Takeyh and Gvosdev 2002.

⁷⁶ The inability of the Somali Transitional Federal Government to patrol the waters pertaining to its Exclusive Economic Zone led the United Nations Security Council to adopt Resolution 1816, authorising foreign navies to fight pirates in Somali waters (Guilfoyle 2008).

⁷⁷ Nincic 2008.

⁷⁸ Menkhaus 2009, p. 22.

⁷⁹ FAO (2009) suggests that "700 foreign-owned vessels are fully engaged in unlicensed fishing in Somali waters".

⁸⁰ Hansen 2008.

⁸¹ Menkhaus (2009) argues that "Somali piracy is a textbook case of a shift in the motives of an armed group from grievance to greed."

⁸² OECD 2009.

⁸³ UNODC 2009.

⁸⁴ Stewart 2007.

⁸⁵ UNODC 2009, p. 54.

CHAPTER 2

CHARACTERISTICS OF FRAGILE STATES

There is a widespread consensus that state fragility relates to the poor record of state institutions in providing basic services, due either to a lack of capacity or failure to confer the due priority to fulfil basic state functions.

The Sub-Saharan African countries whose state institutions are fragile present markedly different sets of social, structural and economic characteristics. Such heterogeneity is hardly surprising, as each country has experienced its own socioeconomic and historical path. Though there may be some common underlying root causes, such as the process of formation of colonial states (see chapter 3), the drivers of state fragility are country specific.

An agreed list of fragile countries does not exist. As mentioned in chapter 1, for operational purposes the list of countries in a situation of fragility adopted in OECD (2009) is used here, confining the analysis to Sub-Saharan Africa. The list is the result of “a compilation of three lists: the bottom two quintiles of the CPIA 2007, the Brookings Index of State Weakness in the Developing World 2008 and the [...] (IFP) 2007 index [...]. [This represents] a change from the 2005, 2006 and 2007 Reports. [...] The two additional indexes that reflect the DAC definition of fragility and conflict (consideration of both the capacity and legitimacy of the state, and inclusion of the security dimension) aims to make the list more robust”¹.

This list includes five additional Sub-Saharan African countries – Equatorial Guinea, Ethiopia, Kenya, Rwanda and Uganda – not previously regarded as fragile. The political turmoil that followed the 2007 presidential elections, for instance, made Kenya part of this group. Other countries have long been classified as fragile according to the World Bank definition, which was initially established in the 1970s, while some – such as Côte d’Ivoire and Zimbabwe – have gradually shifted from being regarded as success stories to situations of fragility.

1. FRAGILE STATES SHARE SOME COMMON FEATURES

1.1 AN INABILITY TO MOBILISE DOMESTIC RESOURCES AND A DEPENDENCE ON EXTERNAL RESOURCES

Fragile countries are unable to mobilise domestic resources and to draw substantial fiscal revenues from taxation. Sub-Saharan African fragile countries’ government revenues excluding grants rarely account for more than 20% of GDP (table 2.1). Only 4 countries of 29 – Angola, Equatorial Guinea, Republic of Congo and São Tomé and Príncipe – have a high ratio of government revenues over GDP, but this is not due to their capacity to levy taxes, but rather to their endowment of natural resources (see table 2.7 later in this chapter).

¹ OECD 2009, p. 21. See also chapter 1, footnote 2.

Table 2.1: Taxation, government revenues and ease of doing business in Sub-Saharan African fragile countries

Country	Government revenues (% of GDP) ⁽¹⁾	Tax revenues (% of GDP) ⁽²⁾	Ease of Doing Business rank ⁽³⁾
Angola	46.7	...	168
Burundi	18.6	...	177
Cameroon	18.8	...	164
Central African Republic	10.3	6.0	180
Chad	20.6	...	175
Comoros	12.7	...	155
Congo, Dem. Rep. of	14.8	6.3	181
Congo, Rep. of	42.7	8.5	178
Côte d'Ivoire	19.2	14.9	161
Djibouti	...	...	153
Equatorial Guinea	38.3	...	167
Eritrea	22.8	...	173
Ethiopia	12.8	10.7	116
Gambia, The	21.4	...	130
Guinea	14.3	...	171
Guinea-Bissau	14.6	...	179
Kenya	22.2	18.3	82
Liberia	23.6	...	157
Mauritania	...	...	160
Niger	15.2	...	172
Nigeria	16.0	...	118
Rwanda	13.6	...	139
São Tomé and Príncipe	40.1	...	176
Sierra Leone	10.8	11.0	156
Somalia	...	...	n.c.
Sudan	...	...	147
Togo	17.0	13.9	163
Uganda	12.6	13.0	111
Zimbabwe	6.0	...	158
Sub-Saharan African fragile countries	20.2	11.4	
Sub-Saharan African nonfragile countries	25.4	22.4	
Sub-Saharan Africa	24.5	17.7	

Note: ... denotes not available; n.c. denotes not classified; ⁽¹⁾ data exclude grants and refer to 2007; ⁽²⁾ data, refer to compulsory transfers to the central government for public purposes, data for last year available; ⁽³⁾ data refer to 2009.

Sources: IMF 2009a, World Bank 2008a, World Bank 2009.

Gupta and Tareq (2008) argue that, although there has been an increase in Sub-Saharan Africa's average government revenues to GDP ratio in the last 25 years, most of it is connected to royalties or corporate taxes on oil and mining companies, while nonnatural resource revenues have been growing at around 1% since 1980.² In some fragile countries the share of trade taxes in total taxes is very high, with peaks above 20% for Angola and Nigeria.³ Data on tax revenues are available for only a few countries: the average tax to GDP ratio for the nine countries for which data are available stands at around 11%, with a minimum of 6% for the Central African Republic and the Democratic Republic of Congo. With such a limited tax base, an adequate public goods provision is hardly an option, to say the least.

² According to Stümer (2008), the Democratic Republic of Congo collected tax revenues from the extractive sector of \$16.4 million in 2006, whereas in 2004 the minerals' value was around \$1 billion. The German Federal Institute for Geosciences and Natural Resources maintains that mineral commodities worth an additional \$1 billion have been smuggled out of the country.

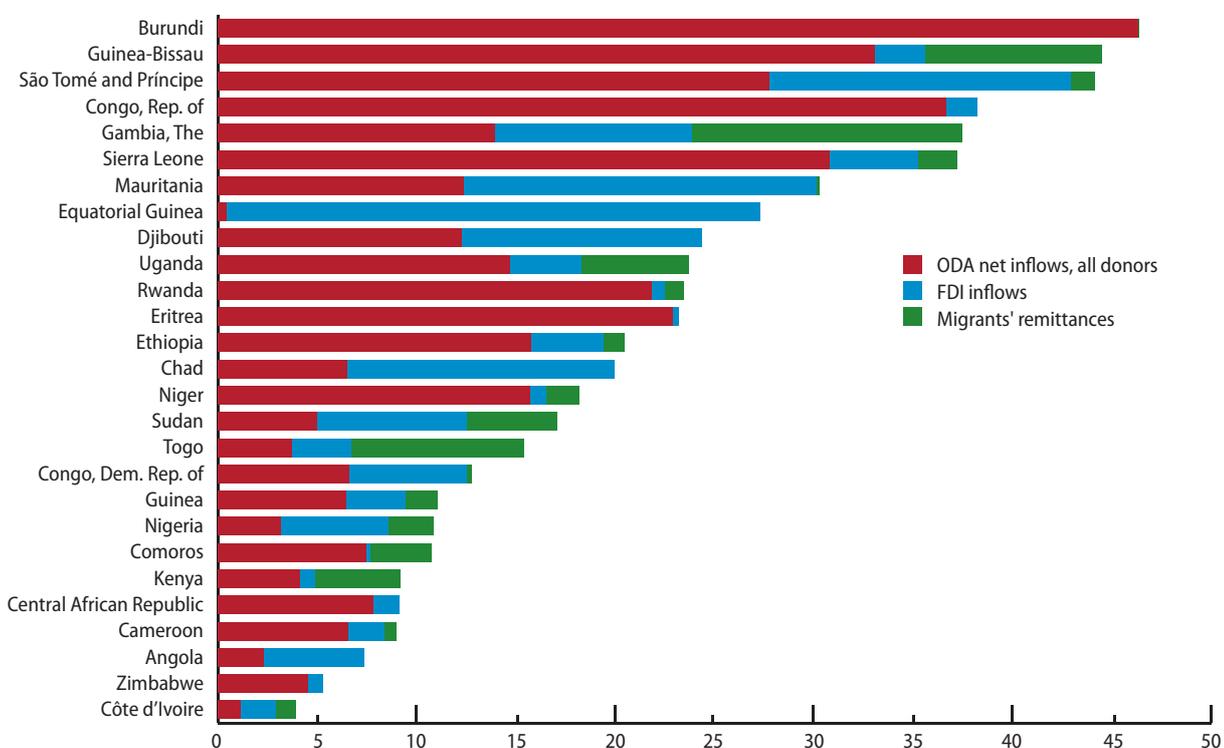
³ Data on trade taxes over total taxes are available to our knowledge only for some fragile states: Angola (22.2%), Kenya (8.0%), Nigeria (22.2%) and Uganda (9.0%). See Volkerink 2009.

The lack of mobilisation of domestic resources lowers the pressure for good governance, for efficient government spending, and for an accountable state. Nor is the state induced to adopt development-oriented policies that could strengthen the economic system, and raise tax revenues⁴. A possible reason could be the small size of the ruling elites: the smaller its size, the lower its incentives to deliver national public goods and develop far-reaching policies that could boost the prospects for economic growth⁵.

Low revenues in Sub-Saharan African fragile countries can be traced to their extraversion, or their political and economic relations outside the country (see chapter 3). These countries have historically – most notably in the colonial era, but also before – depended on external sources of revenues. For most fragile countries, the combined weight of aid, FDI and remittances is a large share of GDP, well above the Sub-Saharan African average, but the composition differs even substantially among countries (figure 2.1). Official development assistance (ODA) is the main inflow for most. Burundi, the Republic of Congo, Eritrea, Guinea-Bissau, Liberia and Sierra Leone have aid as a share of GDP⁶ close to or greater than government revenues as a share of GDP. Remittances play a crucial role, especially in Liberia and Togo⁷. For other countries, such as Chad, Equatorial Guinea, The Gambia, Mauritania, São Tomé and Príncipe and Sudan, external revenue is generated by the export of a few natural resources, such as oil and minerals, and by resource-seeking FDI.

These external sources lower the incentives of governments to mobilise resources locally, through general taxation. For the political elite, taxation could produce the (unintended) effect of triggering a dynamic through which the citizens would hold the government accountable for its spending. Extraversion blunts this dynamic.

Figure 2.1: External flows, 2003-07 (simple average)



Note: Data for Somalia are not available; data on remittances are not available for Angola, Central African Republic, Chad, the Democratic Republic of Congo, Djibouti, Eritrea and Zimbabwe; data on Liberia are outliers and have thus not been included in the figure.

Source: ERD elaboration on OECD and AfDB (2009).

⁴ Tilly, 1990.

⁵ Adam and O'Connell 1999.

⁶ Foreign aid in 2007 represented on average 15% of fragile countries' GDP. But in several countries, aid represents more than 20%, reflecting very high aid dependence. Aid flows tend to be more volatile than domestic revenues and remittances, hampering medium-term planning and the efficient allocation of government expenditures as noted by Gupta and Tareq (2008).

⁷ Note that Liberia is not shown in figure 2.1 but remittances count for more than 100% of GDP (107% according to OECD and AfDB 2009). Note also that remittances are likely to be underestimated, because data consider only official remittances. Some recent estimates claim that informal remittances are very high (World Bank 2008b). World Bank (2008b) finds that in Sudan they might be as much as 85% of total remittances and in Ghana around 65%.

The main implication of such a financing mechanism is that fragile countries rely mostly on the primary sector, which in turn means that they have a poorly diversified export basket and are characterised by paucity of investments in human development and infrastructure.

Box 2.1: Copper boom and bust in Zambia

By Elva Bova, School of Oriental and African Studies, University of London

With China and India's ballooning demand for copper, copper prices surged from \$1,800 per metric ton in 2002 to \$8,000 in 2008 (box figure 1). The boom had major repercussions on the Zambian economy, where copper exports constitute more than 60% of total exports. Exports increased from \$61 million in 2002 to \$600 million in 2008, and GDP growth was steady at an average of 5.6%, owing also to FDI flows, low inflation and sound macroeconomic fundamentals. In July 2008 the copper price fell, reaching \$3,000 per metric ton in October, and exports fell to \$270 million in April 2009, with GDP growth in 2009 expected to be below 4%.⁸ The substantial decline in copper exports caused a series of mine closures, including two plants of the Luanshya mine, the largest mine in the country. Overall, 8,000 jobs were lost in the copper sector by December 2008.⁹

Box figure 1: Zambian exports and copper prices, 2002-09



Source: IMF International Financial Statistics and Direction of Trade Statistics.

MONETARY IMPACT

The boom and bust amplified the volatility of the Zambian currency, which is mainly market determined and displays a close relationship to the copper price (box figure 2).

During the boom, the increase in export receipts from mining caused an appreciation of the currency, exacerbated by the simultaneous surge of aid, portfolio and foreign direct investment (FDI) flows. Between July and November 2005 the Zambian kwacha appreciated 30% in nominal terms, and this increase disrupted some of the country's major nontraditional exports. Most affected were cotton, tobacco and coffee, which experienced profit losses above 30% in just one crop year.¹⁰ With the copper bust, the value of the currency depreciated by 40% in the three months from October to December 2008. The depreciation was also due to a substantial portfolio outflow, as demonstrated by a 5% monthly reduction in the Lusaka stock exchange index.¹¹ While favouring the competitiveness of nontraditional exports, the currency depreciation raised domestic prices. Given the currency depreciation and the global increase in food prices, inflation in the country rose from 8.5% in January 2008 to 16% in December 2008, with the bulk of the increase registered by prices of food products, which constitute 20% of the country's total imports. The Bank of Zambia tried to offset the depreciation through foreign exchange sales. Yet, the manoeuvre led to a 23% decrease in foreign exchange reserves, and the risk of reserve depletion has been escalating.¹²

⁸ IMF 2009.

⁹ Ndulo et al. 2009.

¹⁰ Weeks et al. 2007; Weeks 2008; Fynn and Haggblade 2007; Export Board of Zambia 2007.

¹¹ Ndulo et al. 2009.

¹² Ndulo et al. 2009.

Box figure 2: Copper prices and the Zambian kwacha, 2002-09

Source: IMF International Financial Statistics.

FISCAL IMPACT

Copper exports contribute little to the Zambian government budget. In the mid-1990s the state-owned enterprise, Zambia Consolidated Copper Mines (ZCCM), was privatised, given the enormous losses the company was registering in a period of low commodity prices. With the privatisation reform, the industry was split in six different units under the control and management of transnational corporations. The government of Zambia was left with between 15% and 20% in each unit, directly controlled by the state company ZCCM-International Holding. Yet, ZCCM-IH received no revenue from the copper boom, because it still had to repay debts accumulated in the early 1990s.

The taxes paid by the mining companies were almost negligible until 2007 (box figure 3). The companies managed to secretly negotiate very favourable agreements with the Zambian government (Development Agreements), which set low royalties (0.6% as opposed to 3%), lower export taxes (15% as opposed to 25%) and a series of concessions and deductions, like carry-forward losses for a period of 20 years.¹³ When the agreements were disclosed in 2007, international organisations and local nongovernmental organisations forced the government to revise the tax regime, and a new law was enacted at the end of 2007. Yet, the expected 9% increase in the budget from the new taxes did not realise, and the fiscal revenues increased only by 3% in 2008.¹⁴

The fall of copper prices in July 2008 reopened the debate on the mining taxes, and new concessions were given to the companies in January 2009. These remove the windfall tax that fell due when copper prices were above a specific level and also allow companies to write off 100% of any investment as tax depreciation in the year when the expenses occur.¹⁵

The copper bust and consequent mine closures have raised the question of whether to increase government's share in the mines as a way to extend the scope of macroeconomic management during booms and busts. Yet, the proposal finds adamant opposition of the mining companies and the World Bank. As expressed by Obiageli Ezekwesili, World Bank vice president for Africa, "the populist reaction is to say let's take a stake, but do you want to risk capital in a sector where the private sector can take risks? (...) this is an industry better left to the private sector to run".¹⁶



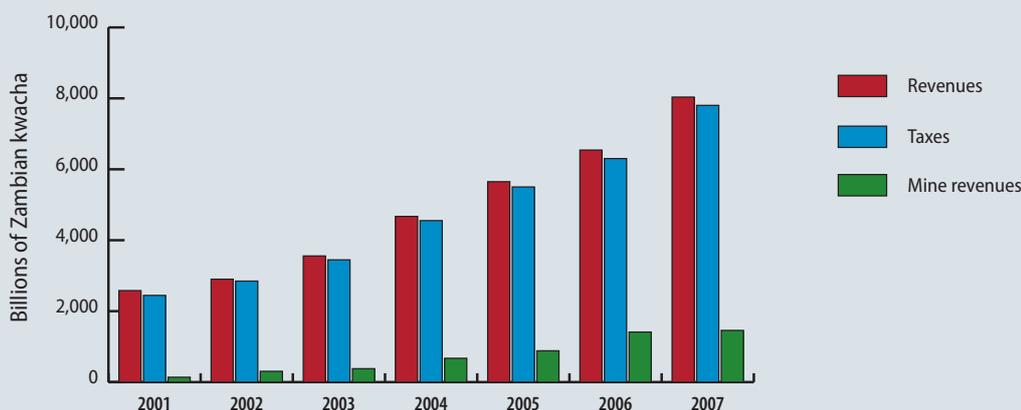
¹³ Fraser and Lungu 2007

¹⁴ Green 2009

¹⁵ Green 2009

¹⁶ Reuters, 2009

Box figure 3: Tax, government revenues and mine revenues in Zambia, 2001-07



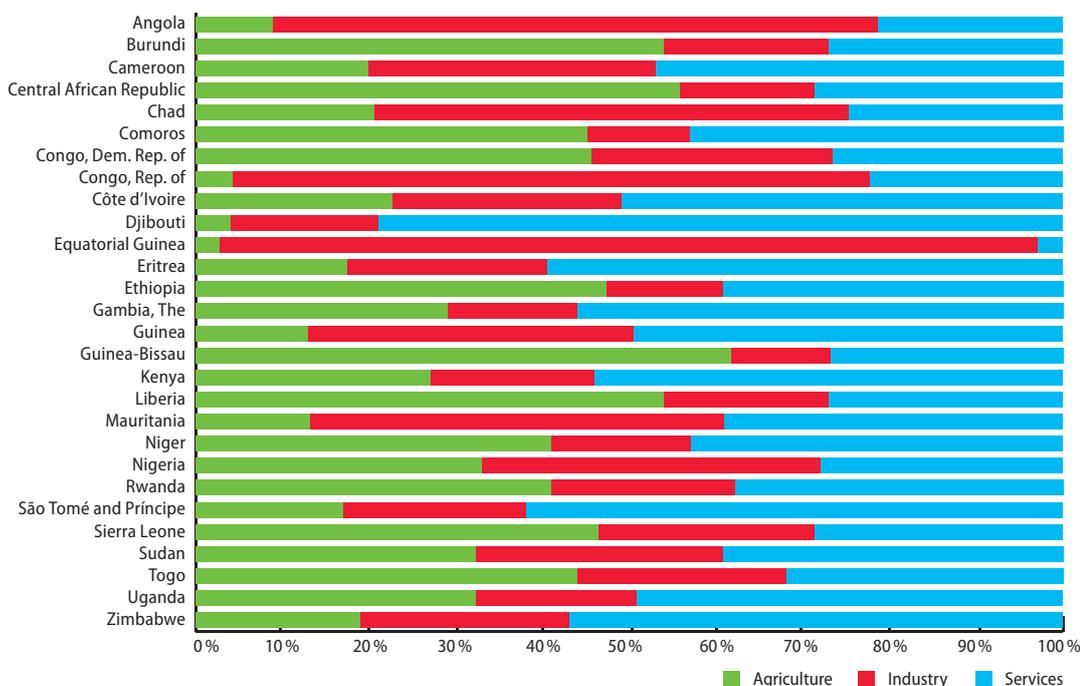
Source: World Bank (2008) and Zambian Revenue Authority.

1.2 RELIANCE ON PRIMARY PRODUCTS

Most fragile countries are characterised, on average, by a very low population density: 15 out of 29 countries have fewer than 40 inhabitants per square kilometre, while the population density in nonfragile countries stands at around 84. Moreover, in these countries the majority of the population lives in rural areas – in Burundi as much as 90% (see table 2.6 later in this chapter). This proportion implies a high rate of employment in the agricultural sector.

The share of agriculture in GDP is substantial, especially for fragile countries not endowed with natural resources (figure 2.2).¹⁷ In addition, the contribution of agricultural products to exports is large, and agriculture is still the main source of export revenues for countries such as Burundi, Ethiopia, The Gambia and Sierra Leone.

Figure 2.2: Shares of agriculture, industry and services on GDP, 2006



Source: World Bank (2008a).

¹⁷ Note that agricultural incomes are difficult to tax. See Volkerink 2009.

Sub-Saharan African countries' agriculture suffers from low productivity, rudimentary technology, small holding and difficulty in getting to markets. Moreover, the lack of information, the extensive market power of a few actors and the incomplete markets expose fragile countries to market failures.¹⁸

According to Ng and Aksoy (2008), the bulk of Sub-Saharan African countries are net food importers (table 2.2). All fragile countries but five (Cameroon, Côte d'Ivoire, Kenya, Somalia and Sudan) belong to this group, and they suffer from a high prevalence of undernourishment.¹⁹ In addition, many of them are net oil importers.

Table 2.2: List of Sub-Saharan African food importer and exporter countries

Food importers ⁽¹⁾	
Angola	Liberia
Benin	Malawi
Burundi	Mali
Cape Verde	Mauritania
Central African Rep.	Mauritius
Chad	Mozambique
Comoros	Niger
Congo, Dem. Rep. Of	Nigeria
Congo, Rep. Of	Rwanda
Equatorial Guinea	São Tomé and Príncipe
Eritrea	Senegal
Ethiopia	Seychelles
Gabon	Sierra Leone
Gambia, The	Tanzania
Ghana	Togo
Guinea	Uganda
Guinea-Bissau	Zimbabwe
Lesotho	
Food exporters	
Botswana	Namibia
Burkina Faso	Somalia
Cameroon	South Africa
Côte d'Ivoire	Sudan
Kenya	Swaziland
Madagascar	Zambia

Note: countries belonging to the operational definition of fragile countries are in bold; ⁽¹⁾ Food is defined as raw food in Standard International Trade Classification (SITC) Rev. 2, excluding all cash crops, processed food and seafood; a country is considered food importer if the difference between exports and imports is negative on the 2004/05 average.

Source: ERD elaboration on Ng and Aksoy (2008).

The dependence on food imports, not matched by exports of less volatile nonagricultural products (such as manufacturing), is a structural factor that can increase the vulnerability of Sub-Saharan African countries.²⁰ This is especially true in times of higher food prices, such as those prevailing through June 2008. In fact, although systematic estimates of the impact of food price increases on fragile countries are not available,²¹ preliminary evidence suggests that they are among the most affected. Most countries identified

¹⁸ WFP 2009.

¹⁹ Undernourishment in Sub-Saharan African fragile states afflicts 35% of the population and in nonfragile states, 23%. See table 1.3 in chapter 1.

²⁰ Sarris and Rapsomanikis 2009.

²¹ The bulk of research comprises country case studies and regional or global analysis of food crisis and food price shocks (Wodon and Zaman 2008; Aksoy and Isik-Dikmelik 2008; Ivanic and Martin 2008; Dessus 2008).

in the most recent *State of World Food Security* as at risk of deteriorating food security because of high food prices are Sub-Saharan African fragile ones (19 out of 26 Sub-Saharan African countries).²² In July 2009, 18 of 30 countries in food crisis requiring external assistance from FAO were Sub-Saharan African fragile countries.²³

For some food items, such as dairy, cereal and oils, the prices soared very high,²⁴ and even when they started declining, they remained substantially above historical values. This trend implied higher import bills, substantially widening the current account deficit, and affected even such variables as the exchange rate, the reserve position of the national bank and the level of external indebtedness.²⁵ The spike in primary commodity prices, which together with a decline in the unit price of manufactures induced an improvement in the terms of trade of food after a long downward trend common to most commodities, came, however, with high exchange rate volatility and heightened uncertainty, limiting opportunities for producers to access credit markets and invest in technologies.

The food price developments affect poor urban households and rural households differently, depending on access to markets and the availability of technology and capital. Landless and women-headed rural households are most affected by the increase in food prices. A 50% increase in the price of maize in Malawi, Zambia and Uganda increases the number of food-insecure households about 5% on average.²⁶ The population below the poverty line increases 3.5% if food prices rise 50%.²⁷

Fragile countries, moreover, suffer disadvantages in *ex ante* conditions. Their constraints in coping with the growth of food prices include, for instance, high poverty, a low capacity of consumption smoothing at the household level because of high food share expenditures, preexisting extreme levels of food insecurity, a high reliance on food imports and some macroeconomic constraints in adopting price stabilisation measures (low endowments of food buffer stocks and shortages of foreign reserves and adverse pressures on exchange rates).

1.3 CONCENTRATED EXPORTS

The export diversification index for Sub-Saharan African fragile countries is less than half that for nonfragile countries (table 2.3), revealing the high degree of concentration of their exports.

With few exceptions, Sub-Saharan African fragile countries export mainly primary products: primary products – both fuel and non fuel – accounted on average for more than 80% of their exports in 2006. Fuels alone represented 26.2% of export revenues, with some countries such as Angola, Chad, the Republic of Congo, Equatorial Guinea and Nigeria above 90% thanks to fuel revenues. Basic food items, which are included in the basket of primary commodities, generate of a sizeable share of total export revenues, which stands on average at 27%, with peaks above 80% for The Gambia, Guinea-Bissau and São Tomé and Príncipe. For other countries, such as the Democratic Republic of Congo, Guinea and Sierra Leone mineral products represent the predominant primary commodities which are exported. Eritrea, Liberia and Togo represent exceptions to this picture, as the exports of manufacturing products generated in 2006 more than half of their export revenues.

The concentration of destination markets is also high: 15 Sub-Saharan African countries earn more than half of their export revenues from exports to a single geographical area. Specifically, nine countries derive more than half of their revenues from exports to Europe. For three countries – namely Djibouti, Togo and Zimbabwe – intra-African trade is predominant, accounting for more than half of total exports (table 2.4).

²² FAO 2008a.

²³ FAO 2009.

²⁴ Note that world price changes are not always fully or symmetrically passed through to domestic markets, because of exports restrictions, taxes, high transport costs and high marketing margins. For an evaluation of the effect on domestic prices, timing of the pass-through is also relevant. In some cases there is only a short-run divergence between domestic and world prices, but in most cases the profit opportunities persist for a long time, with far more disruptive consequences.

²⁵ FAO 2008b.

²⁶ Sarris and Rapsomanikis 2009.

²⁷ Wodon and Zaman 2008.

Table 2.3: Export concentration in fragile countries

Country	Export diversification index ⁽¹⁾	Exports (% of GDP) ⁽²⁾	Primary commodities, excluding fuels ⁽³⁾	Fuels ⁽⁴⁾	Food, basic ⁽⁵⁾	Metals ⁽⁶⁾	Manufactured goods ⁽⁷⁾
Angola	1.1	72.7	2.0	97.5	0.1	1.8	0.4
Burundi	2.6	9.6	97.0	0.0	42.0	50.8	2.9
Cameroon	3.3	24.7	33.2	61.6	11.6	4.9	3.0
Central African Republic	5.5	13.6	95.5	0.2	1.1	60.7	1.7
Chad	1.1	12.8	4.5	94.6	0.0	0.0	0.6
Comoros	4.9	15.2	...	...	...	...	...
Congo, Dem. Rep. of	7.6	80.7	83.4	12.6	1.4	73.0	2.7
Congo, Rep. of	1.4	34.3	7.6	90.3	0.2	4.2	0.6
Côte d'Ivoire	7.7	49.0	43.5	36.9	34.6	0.5	19.4
Djibouti	5.9	...	16.9	0.7	11.6	2.7	15.1
Equatorial Guinea	1.3	88.6	1.4	94.5	0.0	0.0	3.7
Eritrea	2.1	6.4	43.6	0.0	27.5	6.2	52.0
Ethiopia	4.7	14.2	93.9	0.0	70.5	6.8	6.0
Gambia, The	6.6	44.2	85.9	0.0	80.7	0.9	14.1
Guinea	3.2	30.1	89.4	5.5	8.8	78.0	3.1
Guinea-Bissau	1.2	27.9	82.3	0.5	80.0	0.6	17.0
Kenya	21.9	25.9	57.3	7.3	38.8	2.8	35.4
Liberia	3.5	34.2	15.8	14.6	0.4	0.7	69.1
Mauritania	3.9	...	93.1	...	28.3	64.7	0.0
Niger	1.4	17.4	87.4	1.5	22.6	60.1	9.8
Nigeria	1.3	43.4	3.6	95.0	1.5	0.3	0.8
Rwanda	4.1	9.6	92.3	0.7	54.7	34.0	6.5
São Tomé and Príncipe	3.9	13.3	95.1	0.0	91.7	0.0	4.9
Sierra Leone	7.3	23.2	90.4	0.1	9.1	80.4	7.3
Somalia	6.6	...	86.4	0.2	55.0	10.3	9.1
Sudan	1.2	...	10.8	87.5	5.4	3.1	1.2
Togo	9.3	41.9	45.5	0.8	20.1	11.2	51.1
Uganda	10.4	14.1	77.1	4.4	50.3	15.0	18.5
Zimbabwe	10.8	31.1	69.8	1.1	8.4	29.5	29.1
Sub-Saharan Africa	7.4	36.1	58.5	22.6	23.8	24.1	18.9
Sub-Saharan African fragile countries	5.0	31.1	57.3	26.2	27.0	21.5	13.8
Sub-Saharan African nonfragile countries	11.1	40.3	60.2	13.3	19.0	26.6	26.4

Note: ⁽¹⁾ ... denotes not available data; data refer to 2007 and rank from 0 to 100; ⁽²⁾ exports are an arithmetic average of export flows from 2003 to 2007; ⁽³⁾ data are expressed as percentage of total merchandise exports and refer to 2006; *primary commodity* includes SITC 0, 1, 2, 4, 68, 667, 971; ⁽⁴⁾ data are expressed as percentage of total merchandise exports and refer to 2006; *fuels* corresponds to SITC 3; ⁽⁵⁾ data are expressed as percentage of total merchandise exports and refer to 2006; *food basic* includes SITC 0, 22, 4; ⁽⁶⁾ data are expressed as percentage of total merchandise exports and refer to 2006; *ores, metals, precious stones and nonmonetary gold* includes SITC 27, 28, 68, 667, 971; ⁽⁷⁾ data are expressed as percentage of total merchandise exports and refer to 2006; *manufactured goods* includes SITC 5 to 8 excluding 667 and 68.

Source: ERD elaboration on World Bank (2008a); OECD and AfDB (2009); UNCTAD, Handbook of Statistics, online database.

The products that fragile countries export outside Africa – mainly fuels²⁸ – differ from what they export within the region, which include manufacturing products. Hence, their exports within Africa are more diversified than their exports to the rest of the world. So, an expansion of intra-African trade could reduce the impact of commodity price volatility, and thus the vulnerability of fragile countries to trade-related shocks.

The relationship between state fragility and export concentration can be traced back to resource endowments: abundant natural resources can reshape the interests and behaviours of an incumbent government, inducing excessive reliance on natural resources, limiting the expansion of the manufacturing sector and deteriorating governance²⁹. Chauvet and Collier (2008) find that resource rents significantly reduce the chances of achieving a sustained turnaround out of a situation of state fragility. A doubling of resource rents as a share of GDP roughly doubles the time taken. Furthermore, because of low export diversification, fragile states may be more prone to “Dutch disease,” which occurs when the exchange rate appreciates as a result of capital inflows, making exports less competitive.

Table 2.4: Fragile countries’ export destination, percentage, average 2004-06

Country	Africa	Eastern, Southern and South-Eastern Asia	Western Asia	Developed economies - America	Developed economies - Europe
Angola	1.7	41.0	0.0	39.6	11.0
Burundi	15.2	10.2	1.2	0.8	49.1
Cameroon	9.5	14.1	1.1	6.5	64.0
Central African Republic	7.1	14.1	5.8	4.9	66.0
Chad	0.6	19.3	0.0	75.5	4.5
Comoros	1.6	16.4	6.1	18.3	50.1
Congo, Rep. of	2.5	61.7	0.4	23.9	8.4
Congo, Dem. Rep. of	6.8	14.1	0.0	10.9	58.9
Côte d’Ivoire	28.9	5.0	0.8	11.9	45.0
Djibouti	87.4	2.0	7.0	0.6	2.9
Equatorial Guinea	0.2	36.2	0.2	30.9	27.4
Ethiopia	9.7	11.8	11.9	6.9	40.7
Gambia, The	9.9	47.3	0.3	1.7	38.2
Guinea	1.9	8.6	0.0	6.3	45.4
Guinea-Bissau	17.5	70.6	...	7.9	3.7
Kenya	42.7	10.6	2.3	6.9	29.3
Liberia	5.4	10.9	1.2	9.6	71.9
Mauritania	16.8	11.5	0.6	1.5	53.1
Niger	27.4	0.7	0.1	16.2	45.9
Nigeria	9.0	5.0	0.7	49.9	22.1
Rwanda	2.8	35.5	0.3	3.2	19.2
São Tomé and Príncipe	4.2	7.5	3.0	1.7	79.3
Sierra Leone	2.7	3.4	0.3	10.8	78.1
Somalia	5.0	10.4	83.3	0.2	0.7
Sudan	3.3	61.1	7.1	1.1	3.1
Togo	64.1	13.8	0.3	0.8	15.5
Uganda	20.8	7.9	4.4	4.4	51.3
Zimbabwe	56.9	9.1	1.5	6.6	23.3

Note: ... denotes not available data.

Source: UNCTAD, Handbook of Statistics, online database.

²⁸ Because oil is mostly exported outside the region, intra-African trade for fragile oil exporters is on average lower than for nonoil exporters.

²⁹ See chapter 4 and Collier (2009) for further analysis of these mechanisms.

1.4 LOW HUMAN DEVELOPMENT

The low public investment in human development is reflected in poorly functioning education and health care systems. In fact, although many fragile states have decreased their military expenditure, this decline has not been matched by an increase in health and education expenditures (table 2.5).

Table 2.5: Public expenditure as percentage of GDP

Country	Health expenditure ⁽¹⁾		Education expenditure ⁽²⁾		Military expenditure ⁽³⁾	
	1995	2006	1991	2006	1990	2006
Angola	3.3	2.3	...	2.6	1.3	3.7
Burundi	1.1	0.7	3.5	5.1	3.4	4.7
Cameroon	0.9	1.5	3.2	3.3	1.5	1.4
Central African Republic	1.4	1.4	2.2	1.4	1.6	1.1
Chad	2.0	1.3	1.6	1.9	...	0.9
Comoros	2.8	1.8	...	3.8	...	...
Congo, Dem. Rep. of	0.2	1.6	...	...	...	1.9
Congo, Rep. of	1.8	0.9	7.4	1.8	...	1.2
Côte d'Ivoire	1.2	0.9	...	4.6	1.3	1.5
Djibouti	4.3	5.1	3.5	8.3	5.9	4.2
Equatorial Guinea	3.3	1.2	...	0.6	...	...
Eritrea	2.6	1.7	...	2.4	...	24.1
Ethiopia	2.7	3.0	2.4	5.5	8.5	2.1
Gambia, The	1.7	2.5	3.8	2.0	1.1	0.6
Guinea	0.7	0.7	2.0	1.7	2.4	2.0
Guinea-Bissau	1.6	1.5	...	5.2	...	3.9
Kenya	2.0	2.2	6.7	7.1	2.9	1.6
Liberia	1.4	3.6	...	...	7.2	0.8
Mauritania	2.0	1.5	4.6	2.9	3.8	3.0
Niger	1.8	2.1	3.3	3.4	...	1.0
Nigeria	1.1	1.2	0.9	...	0.9	0.6
Rwanda	1.6	6.6	...	4.9	3.7	1.9
São Tomé and Príncipe	9.1	9.0	...	...	...	...
Sierra Leone	1.1	1.7	...	3.8	1.4	2.1
Somalia	1.2	1.2	...	...	...	...
Sudan	0.5	1.4	6.0	...	3.5	4.4
Togo	1.5	1.5	...	3.6	3.1	1.6
Uganda	1.6	1.9	1.5	5.2	3.0	2.0
Zimbabwe	4.5	4.4	7.7	4.6	4.4	1.9
Sub-Saharan Africa	2.0	2.6	4.0	4.4	2.8	2.3
Sub-Saharan African fragile countries	1.7	2.0	3.8	3.6	3.1	2.9
Sub-Saharan African nonfragile countries	2.5	3.5	4.3	5.5	2.5	1.5

Note: ... denotes not available data.

Source: ⁽¹⁾ WHO (2008); ⁽²⁾ UNESCO Institute of Statistics (2008); ⁽³⁾ SIPRI (2008).

As a result, we saw in chapter 1 that Sub-Saharan African fragile countries lag behind the rest of the continent on adult literacy: adult literacy stands at 59.2% compared with 66.4% in the rest of Sub-Saharan Africa (see table 1.1). The poor human development record is also confirmed by the under-five mortality rate, which stands at 138 per 1,000 in fragile countries, much higher than the 98 recorded on average in the other Sub-Saharan African countries.

Scant public investments in education and health care not only contribute to the poor human development record but also produce an uneven impact on males and females. Gender inequality in fragile countries is higher than in the rest of Sub-Saharan Africa, as the fragility of state institutions can adversely influence women's condition. The difference between the HDI and Gender-related Development Index – a proxy for gender inequality – is on average nearly twice as large for Sub-Saharan African fragile countries than for nonfragile countries.³⁰ The difference would probably be even larger, as data are missing for two countries – Somalia and Sudan – that presumably are characterised by a poor record in terms of gender equality. Little to no public funding to the health sector drives up maternal mortality, which is much higher than in nonfragile countries (see table 1.1). The failure to provide adequate funding to social service delivery hits all of the population, at the same time widening inequalities between men and women.

Fertility rates in fragile countries are higher and go down more slowly than in nonfragile countries (table 2.6). Fertility rates matter because families with many children are unlikely to be able to afford schooling costs. Families with fewer children, by contrast, may be better able to offer them a better education.

³⁰ ERD elaboration on UNDP (2008).

Table 2.6: Population

Country	Population density ⁽¹⁾	Share of population ages 0-14 ⁽²⁾	Share of rural population ⁽²⁾	Total fertility rate, average 1975-80 ⁽³⁾	Total fertility rate, average 2000-05 ⁽³⁾	Distribution of young women who have given birth ⁽⁴⁾			
						No education	Primary education	Secondary education	Higher education
Angola	13	46.5	46.0	7.2	6.7	...	...	...	...
Burundi	318	45.0	89.7	6.8	6.8	...	...	...	...
Cameroon	39	41.2	44.5	6.4	5.0	24.5	43.0	32.2	0.3
Central African Republic	7	43.0	61.8	5.8	4.9	71.8	21.4	6.6	0.2
Chad	8	47.3	74.2	6.7	6.4	...	...	...	...
Comoros	330	42.0	62.3	7.2	4.0	...	...	...	...
Congo, Dem. Rep. of	27	47.3	67.3	6.6	6.7	...	...	...	...
Congo, Rep. of	11	47.1	39.4	6.3	5.6	...	...	...	...
Côte d'Ivoire	59	41.9	54.6	7.4	5.0	...	...	...	...
Djibouti	35	...	...	...	...	...	...	...	...
Equatorial Guinea	18	44.4	60.9	5.7	5.9	...	...	...	...
Eritrea	46	44.8	80.2	6.5	5.5	...	...	...	...
Ethiopia	77	44.5	83.7	6.3	5.5	73.6	20.4	5.6	0.3
Gambia, The	166	40.1	45.3	6.5	4.7	...	...	...	...
Guinea	37	43.7	66.5	6.9	5.7	79.4	12.3	8.0	0.2
Guinea-Bissau	59	47.5	70.3	7.1	7.1	...	...	...	...
Kenya	64	42.8	79.0	7.5	5.0	10.3	70.2	18.3	1.2
Liberia	37	47.1	41.2	6.9	6.8	...	...	...	...
Mauritania	3	43.0	59.4	6.4	5.8	...	...	...	...
Niger	11	49.0	83.0	8.2	7.9	86.9	10.1	3.0	0.0
Nigeria	159	44.3	51.0	6.9	5.7	53.7	21.0	24.0	1.3
Rwanda	384	43.5	79.8	8.5	5.9	24.4	69.9	5.4	0.3
São Tomé and Príncipe	162	39.5	41.2	6.4	4.0	...	...	...	...
Sierra Leone	80	42.8	58.6	6.5	6.5	...	...	...	...
Somalia	13	44.1	64.3	7.2	6.4	...	...	...	...
Sudan	16	39.2	58.3	6.5	4.4	...	...	...	...
Togo	118	43.5	59.2	7.0	5.3	...	...	...	...
Uganda	152	50.5	87.3	7.1	7.1	12.1	68.0	18.0	1.9
Zimbabwe	34	40.0	63.6	7.1	3.6	...	...	...	...
Sub-Saharan Africa	87	43.0	62.1	6.6	5.2				
Sub-Saharan African fragile countries	86	44.1	63.3	6.8	5.7				
Sub-Saharan African nonfragile countries	84	41.1	60.2	6.3	4.5				

Note: ... denotes not available data; ⁽¹⁾ individuals per square kilometre, data refer to 2006; ⁽²⁾ data refer to 2006; ⁽⁴⁾ data refer to most recent year available.

Source: ^{(1),(2)} and ⁽³⁾ World Bank (2008a); ⁽⁴⁾ World Bank, Demographic and Health Surveys, various years and countries.

1.5 POOR SOFT AND HARD INFRASTRUCTURE

Underdeveloped physical infrastructure is another common feature of fragile countries in Sub-Saharan Africa. Fragile countries have only 8 metres of paved roads per square kilometre, nonfragile countries 18 (table 2.7).

Table 2.7: Infrastructure and geographical characteristics

Country	Density of paved roads ⁽¹⁾	Mobile telephone lines ⁽²⁾	Resource-rich ⁽³⁾	Share of the population without access to improved water sources ⁽⁴⁾	Land-locked ⁽⁵⁾	Number of land borders
Angola	4.3	29.1	Yes	49	No	3
Burundi	46.2	2.9	No	29	Yes	3
Cameroon	10.5	24.5	Yes	30	No	6
Central African Republic	0.0	3.0	No	34	Yes	5
Chad	0.2	8.5	Yes	52	Yes	5
Comoros	361.7	4.8	No	15	No	0
Congo, Dem. Rep. of	1.2	34.2	No	29	Yes	9
Congo, Rep. of	2.5	10.5	Yes	54	No	4
Côte d'Ivoire	20.1	36.6	Yes	19	No	5
Djibouti	...	5.3	No	8	No	3
Equatorial Guinea	0.0	43.4	Yes	57	No	2
Eritrea	7.4	1.7	No	40	No	3
Ethiopia	4.5	1.5	No	58	Yes	5
Gambia, The	64.0	46.8	No	14	No	1
Guinea	17.7	21.3	Yes	30	No	6
Guinea-Bissau	26.7	17.5	No	43	No	2
Kenya	15.4	30.2	No	43	No	5
Liberia	5.9	15.0	No	36	No	3
Mauritania	0.8	41.6	No	40	No	4
Niger	3.0	6.3	No	58	Yes	7
Nigeria	31.4	27.3	Yes	53	No	3
Rwanda	101.0	6.5	No	35	Yes	4
São Tomé and Príncipe	227.0	19.1	Yes	14	No	0
Sierra Leone	12.6	13.2	Yes	47	No	2
Somalia	4.1	6.9	No	71	No	3
Sudan	1.7	21.3	Yes	30	No	8
Togo	41.8	18.1	No	41	No	3
Uganda	67.5	13.6	No	36	Yes	5
Zimbabwe	47.3	9.2	No	19	Yes	4
Sub-Saharan Africa	11.4	25.7				
Sub-Saharan African fragile countries	7.8	17.9				
Sub-Saharan African nonfragile countries	18.5	36.9				

Note: ... denotes not available data; ⁽¹⁾ metres of paved roads per square kilometre, data refer to the most recent year available; ⁽²⁾ number of telephone lines per 1,000 people; data refer to 2007; ⁽³⁾ a country is classified as resource-rich if primary commodity rents (oil and non oil) are above 10% of GDP; ⁽⁴⁾ data refer to 2007; ⁽⁵⁾ classification by the IMF.

Source: ⁽¹⁾ World Bank (2008a); ^{(2),(3)} and ⁽⁵⁾ IMF (2009a); ⁽⁴⁾ UNDP (2008).

Unreliable road infrastructure³¹ hampers communication and transport between the centre and the periphery, worsening the urban bias in public expenditure, and can be a disincentive to regional integration.

³¹ Transport costs in Africa are 136% higher than in other regions, with a wide disparity between countries and products. This is likely to be even higher in Uganda, where "in the early 2000s the rate of effective taxation of exports due to transport costs was 40%, [. . .] much higher than the average of 15% for ACP countries" (UNCTAD 2009, p. 38).

In the last few years, China has been investing heavily in African infrastructure, especially in fragile countries, to improve the quality of as well as the access to natural resources. Intertwined with its aid programmes, Chinese investment projects are rapidly rebuilding ports, dams and roads in postconflict countries, such as Angola and the Democratic Republic of Congo.³²

But without investments in soft infrastructure – in policies and regulations, and in border procedures and customs administration – transport costs will continue to present a problem for fragile countries.

Sub-Saharan African fragile countries lag behind in telecommunication as well. Fixed telephone lines have been stagnating in the last 10 years, while the growth rate of mobile phone subscribers has been very high. Thus, these countries are taking the lead in the shift from fixed to mobile³³ because mobile lines need lower initial investments, generally sustained by foreign companies. Despite these changes, the number of mobile lines per 1,000 inhabitants is half that in nonfragile countries (see table 2.7) and less than 3% of the population uses the Internet, compared with 4.2% of Africa and 23% of the world³⁴.

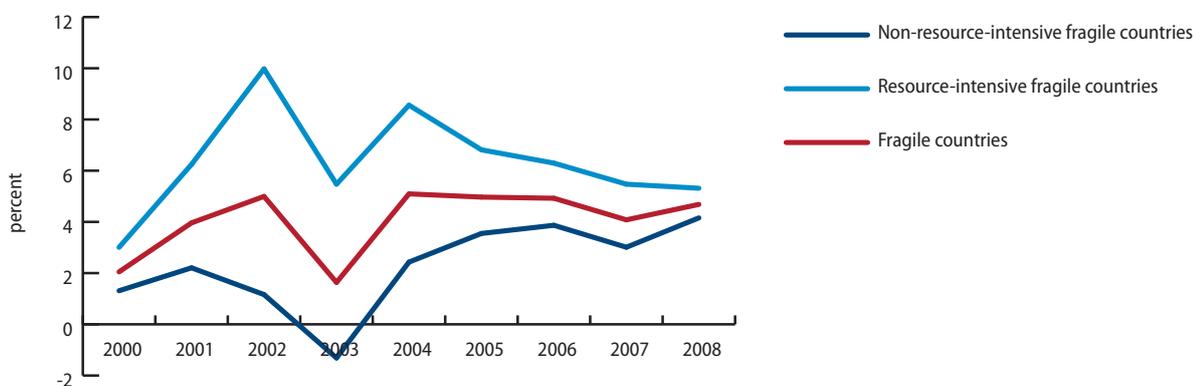
These common features – the inability to mobilise domestic resources, the dependence on external resources, low human capital development, poor infrastructure and the reliance on primary products and concentrated exports – make it possible to identify a group of countries in a situation of fragility. However, along other dimensions, the differences between fragile countries prevail.

2. FRAGILE COUNTRIES PRESENT MANY ELEMENTS OF HETEROGENEITY

During the recent episode of sustained growth in Sub-Saharan Africa, Angola grew at double-digit rates while Zimbabwe shrank. But Zimbabwe has high literacy and low infant mortality, the opposite of Angola (see table 1.1).

Several indicators provide a sense of the differences between fragile countries. Economic growth rates, for example, have gone up since the mid-1990s all over the continent. Fragile countries as a group followed this trend, growing at around 4% a year between 2000 and 2008. But different subgroups grew at very different rates: resource-rich fragile countries grew at 6.3%, peaking at 10% in 2002 and 8.5% in 2004 (figure 2.3). Fragile countries that are not resource rich grew at 2.3%. Individual countries' rates also differ substantially by year and on average.³⁵

Figure 2.3: Real GDP growth of fragile countries, resource-intensive fragile countries and non-resource-intensive fragile countries, 2000-08



Source: ERD elaboration on IMF (2009b).

The real per capita income, on average \$600 in 2008 in Sub-Saharan African fragile countries, ranges between \$100 for the Democratic Republic of Congo to \$4,500 for Equatorial Guinea (table 2.8). The ratio between the two extremes within the group of fragile Sub-Saharan African countries is not far from the ratio of the average of this group of countries to that of the OECD member countries and represents a rather telling example of the degree of heterogeneity in the group of fragile countries.

³² See box 6.2 *Is China filling the gap?* in chapter 6. According to Stümer (2008, p.2) “in the Democratic Republic of Congo, China will build infrastructure including 2,400 miles of road, 2,000 miles of railway, 32 hospitals, 145 health centres and two universities worth \$6 billion in return for imports of copper and cobalt”.

³³ See International Telecommunication Union 2009. Note that the increase in mobile phones has been led by Nigeria with 11 million lines, but Kenya and Côte d’Ivoire have also contributed greatly.

³⁴ See International Telecommunication Union 2009.

³⁵ See IMF 2009a.

But GDP and GDP per capita are not the only dimensions to look at. It is important to consider additional aspects in order to get a better view of the economic and social situation and sustainability and thus to implement appropriate policy measures.³⁶ For instance, the components of the human development index capture important aspects of heterogeneity.

Life expectancy at birth varies substantially across Sub-Saharan Africa: in São Tomé and Príncipe, people expect to live more than 60 years at birth, in line with the average for developing countries – but citizens of Mauritania and Zimbabwe have a life expectancy around 40 years. The average life expectancy in fragile countries as a group, however, does not differ much from that in nonfragile countries.³⁷

Table 2.8: Macroeconomic characteristics

Country	External debt, % of GDP ⁽¹⁾	Reserves, months of imports ⁽²⁾	Sectoral composition of GDP ⁽³⁾				Real GDP per capita ⁽⁴⁾
			Agriculture	Industry	Manufact.	Services	
Angola	9.9	5.1	8.9	69.7	4.3	21.4	1,456
Burundi	150.5	4.5	54.0	19.0	...	27.0	113
Cameroon	4.9	5.4	19.9	33.2	18.1	46.9	687
Central African Republic	55.6	2.5	55.8	15.5	7.5	28.7	223
Chad	12.0	8.3	20.5	54.8	5.3	24.7	410
Comoros	61.2	7.3	45.2	11.8	4.2	...	366
Congo, Dem. Rep. of	52.3	0.9	45.7	27.7	6.5	26.6	101
Congo, Rep. of	122.6	4.0	4.2	73.5	4.9	22.3	1,188
Côte d'Ivoire	53.7	3.6	22.7	26.3	18.3	51.0	528
Djibouti	...	...	4.0	17.0	...	79.0	...
Equatorial Guinea	1.1	12.1	2.7	94.3	8.6	3.0	4,621
Eritrea	66.2	-2.2	17.5	23.0	8.7	59.5	162
Ethiopia	11.3	1.8	47.3	13.5	5.3	39.2	180
Gambia, The	46.0	5.1	29.0	15.0	...	56.0	383
Guinea	77.6	1.1	12.9	37.5	3.7	49.6	515
Guinea-Bissau	257.0	8.0	61.8	11.5	7.2	26.8	141
Kenya	18.8	4.1	27.1	18.8	11.5	54.1	485
Liberia	571.8	-6.0	54.0	19.0	...	27.0	134
Mauritania	...	...	13.1	47.8	...	39.1	...
Niger	16.0	5.6	41.0	17.0	...	43.0	190
Nigeria	2.4	12.1	33.0	39.0	...	28.0	626
Rwanda	16.8	7.0	41.0	21.2	8.5	37.8	315
São Tomé and Príncipe	105.8	4.9	17.0	21.0	...	63.0	783
Sierra Leone	17.7	5.5	46.4	25.0	...	28.6	247
Somalia	...	...	...	...	...	...	...
Sudan	...	...	32.3	28.5	6.2	39.2	...
Togo	85.1	5.3	44.0	24.0	...	32.0	222
Uganda	12.3	9.2	32.3	18.4	9.1	49.2	352
Zimbabwe	20.1	0.9	19.0	24.0	...	57.0	...
Sub-Saharan Africa	50.2	5.0	26.0	30.1	10.6	43.8	1,128
Sub-Saharan African fragile countries	73.9	4.6	30.4	30.3	8.1	39.2	601
Sub-Saharan African nonfragile countries	18.9	5.4	19.7	29.4	12.9	50.1	1,811

Note: ... denotes not available data; ⁽¹⁾ and ⁽²⁾ data refers to 2007; ⁽³⁾ data refer to 2006, except for Niger (2003) and Burundi, Togo and Zimbabwe (2005); ⁽⁴⁾ data refer to 2008.

Source: ⁽¹⁾ OECD and AfDB (2009); ⁽²⁾ and ⁽⁴⁾ IMF (2009a); ⁽³⁾ World Bank (2008a).

³⁶ Fitoussi et al. 2009.

³⁷ See table 1.1 in chapter 1.

More than 70% of all incoming FDI to Sub-Saharan African fragile countries from 2000 to 2007 went to just five countries: Angola, Chad, Equatorial Guinea, Nigeria and Sudan, all well-endowed with natural resources.³⁸

There is no clear pattern in the main macroeconomic variables. Some fragile countries have very low foreign reserves (less than 90 days of import coverage).³⁹ In April 2009, Ethiopia, Guinea and Zimbabwe had reserves for one month of imports, whereas oil exporters had half a year. The low reserves make these countries more vulnerable to external shocks. And in the long run, they lack resources to expand manufacturing and diversify their economies.

Nor is there a common pattern for external debt.⁴⁰ Thanks to the large revenues, oil exporters have contained external debt, and debt distress indicators are largely under control. For example, the ratio of debt to gross national income and the ratio of total debt to exports of goods and services have improved substantially in Angola and Sudan since 2000.⁴¹ Resource-poor fragile countries, such as Guinea-Bissau and Liberia still have a large debt burden, undermining their future development.

The level and development of macroeconomic indicators can be used to compute a country's economic vulnerability index.⁴²

Table 2.9: Overall vulnerability rank

Country	Rankings		
	Naudé (2009)	African Development Bank	European Commission DG Development
Angola	High	High	Low
Burundi	High	Very high	Medium
Cameroon	Medium	Low	Low
Central African Republic	Low	High	High
Chad	Medium	Moderate	Low
Comoros	Low	n.c.	Medium
Congo, Dem. Rep. of	High	High	High
Congo, Rep. of	Low	n.c.	Low
Côte d'Ivoire	High	High	Medium
Djibouti	n.c.	n.c.	High
Equatorial Guinea	Low	Low	Low
Eritrea	Low	Very high	Medium
Ethiopia	Low	Moderate	Medium
Gambia, The	Low	High	High
Guinea	Medium	n.c.	Medium
Guinea-Bissau	Medium	Moderate	Medium
Kenya	Medium	High	Medium
Liberia	High	High	High
Mauritania	n.c.	n.c.	High
Niger	Low	Very high	Medium
Nigeria	High	High	Low
Rwanda	Low	High	Medium
São Tomé and Príncipe	Medium	High	High
Sierra Leone	Low	High	Medium
Somalia	n.c.	n.c.	n.c.
Togo	Medium	Very high	Medium
Uganda	Low	Low	Medium
Zimbabwe	n.c.	n.c.	High

Note: n.c. denotes not classified; vulnerability indexes combine into a synthetic measure the external and fiscal position of a country, and the degree of diversification of its export basket.

Source: Naudé (2009) and European Commission DG Development, personal communication.

³⁸ OECD 2008.

³⁹ The group of Sub-Saharan African countries has on average 5.2 months of reserves, the nonfragile 5.0 months. So there is no significant difference between the two groups although there are differences within the group.

⁴⁰ On average Sub-Saharan African fragile countries have official debt that is 73.9% of GDP, whereas nonfragile countries stand at 18.9%.

⁴¹ Reisen 2007.

⁴² Economic vulnerability is only one aspect of a country's vulnerability, because economic factors are only one aspect of many. But economic factors have the advantage of being more easily measured than social aspects. Structural vulnerability, which includes such elements as political instability, dysfunctional institutions and conflicts, is discussed in chapter 5. In fragile countries these elements are predominant, but serious measurement problems make them difficult to evaluate. Table 2.9 reports economic vulnerability measures only for countries in situation of fragility; the background paper by Allen and Giovannetti, (2009), in volume 1b, reports the complete list, which includes all Sub-Saharan African countries for which enough data are available. The ranking is not available for countries such as Somalia, where there was only one of the components of the economic index.

Countries are vulnerable economically when they are particularly sensitive to external shocks. So, in the following, we evaluate the exposure to shocks and the capacity to react. We want to check whether fragile countries – in line with expectations – are more vulnerable to shocks than other Sub-Saharan African countries. As with Naudé (2009), we consider diversification, external indebtedness, openness of the economy, cross-border liabilities, capital to risk-weighted assets and rate of credit growth to the private sector.⁴³ More precisely for each fragile country with data (hence, excluding Mauritania, Somalia, Sudan and Zimbabwe), we analyse:

- Openness, measured as the share of exports over GDP.
- Concentration of exports, measured as the Herfindal-Hirschman Index – the more diversified the basket of exports, the less vulnerable the country.
- External indebtedness, measured as external debt as a share of GDP.
- Regulatory capital to risk-weighted assets.
- Cross-border liabilities.
- Growth of credit to the private sector.

We compute the ranking for countries as a simple average to avoid distortions. We rank all Sub-Saharan African countries – fragile and nonfragile – according to a criterion where a low rank means low vulnerability and a high rank means high vulnerability. We then divide the countries into roughly three equal groups from low to high (table 2.9). Countries in fragile situations, according to our operational definition, are spread equally among the three groups.⁴⁴

3. IN SUMMARY

The key role of state functions for human and economic development is reflected by some common characteristics of fragile countries analysed in this chapter. Low ability to mobilise domestic resources and to promote economic diversification and moving-up in value chains, high dependence on external financial resources as well as low level of human capital and persistency of underdeveloped and internally disconnected infrastructures are all “symptoms” of state fragility. Behind these common features, however, there is also a high degree of heterogeneity due to history, different endowments, geography, ethnical and religious cohesion and the group of fragile countries includes very different situations in terms of outcomes and degree of vulnerability.

The different features of fragility – both commonalities and heterogeneities – combine in different ways and, furthermore, change over time. Hence, to try and categorise fragile countries, even in subgroups, is difficult, because it involves ample subjective assessments.

⁴³ Guillaumont and Guillaumont Jeanneney (2009) refer to structural vulnerability using an economic vulnerability index that combines the exposure to shocks – population size, distance from world market, concentration of goods exports, and relative share of value added in agriculture, forestry, and fishing – and the “size” of the shock itself. AfDB (2009) uses structural macroeconomic factors such as falling reserves, high concentration of foreign ownership in the banking system, inflationary expectations, and reductions in GDP growth, the terms of trade and the current account. The European Commission DG Development uses three sets of variables: dependence on export revenues, dependence on external financial flows and capacity to react.

⁴⁴ The rankings by the African Development Bank and the European Commission DG Development give similar results. Fragile countries are spread across the different groups even though the variables considered to rank countries according to their vulnerability are somehow different.

CHAPTER 3

THE HISTORICAL ROOTS OF STATE FRAGILITY

This chapter explores whether state fragility in Sub-Saharan Africa has a shared historical origin, because a stylised fact survives all the theoretical disputes around the definition and measurement of fragility¹: Sub-Saharan African countries always account for most of the group of fragile states. The rich diversity of institutional developments in the region suggests that a common historical root of state fragility does not operate in isolation – but is closely intertwined with country-specific dynamics. This chapter does not provide a detailed account of the factors that make individual Sub-Saharan African countries fragile and does not represent a substitute – or shortcut – for a thorough analysis of the local context. Still, it offers relevant insights for effective external engagements in situations of fragility.

The Scramble for Africa, spurred by European countries at the end of the 19th century, is a natural candidate for the historical origin of the fragility plaguing many Sub-Saharan African countries. This historical experience unifies most of the region, and the colonial period has proven to have long-lasting consequences on the pattern of institutional development during the period.² While state institutions can be fragile even in countries such as Ethiopia and Liberia, which were not affected by the Scramble for Africa, European colonialism may still have prevented stronger state structures in the region.

Although the colonial experience marked a watershed in the region's history, it covered only a short period. Thus, this chapter also explores the possibility, along the lines drawn by Herbst (2000), that fragility relates to more deeply rooted regional characteristics, which have made – and still make – it hard to follow a path of institutional development conducive to legitimate and effective states.

This does not soften the argument about the relevance of the colonial experience in influencing the institutional development of postcolonial states. But it frames it in a broader perspective.³ The Scramble for Africa did not occur in an institutional vacuum. The formation of colonial states interacted with preexisting institutional features of the colonised countries, which – rather than being static and time invariant – were significantly influenced by the colonial period.

1. SPECIFIC DRIVERS AND COMMON UNDERLYING FACTORS

Sub-Saharan African countries share some distinctive symptoms, but “there is little to hold state fragility together other than its symptoms: poverty, insecurity, proneness to conflict, corruption⁴.” Though the regional dimension of fragility should not be overlooked, state fragility is most likely to be determined by country-specific driving factors, which confer on the group of fragile countries the heterogeneity depicted in chapter 2. A thorough understanding of what led a country along a downward spiral, with the capacity and legitimacy of its state institutions progressively eroded, can hardly be gained by analyses that aim for broad-based conclusions.

Still, the geographical clustering of fragile states hints at some common regional factors, which are likely to interact with country-specific factors in determining the fragility of state institutions. If we can credibly establish common factors contributing to the occurrence – and to the persistence – of fragility, this would lay the ground for a broader analytical framework, which could then contribute to organising and understanding the crucial role of country-specific factors.

Most of the debate around state fragility – both in academia and in the development community – leaves aside the historical roots of fragility. But bringing the historical dimension of fragility to the forefront can enhance the soundness and credibility of European engagements to support state-building. Europe can hardly expect that its engagement can be perceived as neutral or merely technical, because the perception that Europe is to blame for the fragility of state institutions is widespread across Sub-Saharan Africa. Some authors have actually argued that this engagement is a nuance of the old *mission civilisatrice* that supposedly backed the European colonisation at the time of the Scramble for Africa⁵. Thorough analysis of the role of European countries is thus a precondition for effective European support to state-building.

¹ Bertoli and Ticci 2009.

² For example, Acemoglu et al. 2001; Lange 2004; Angeles and Neanidis 2009.

³ As Robinson (2002) observes, assessing the relative influences of different historical factors is still an unsettled empirical issue.

⁴ Briscoe 2008, p. 7.

⁵ Paris 2002.

2. IS FRAGILITY A COLONIAL LEGACY?

European countries – which for centuries had strongholds along the African coastline – gained political control of most of Sub-Saharan Africa within a few decades between the end of the 19th century and the beginning of the 20th century. The colonial experience marked African history, though less than a century elapsed from the Berlin Conference to the independence of the Portuguese colonies in the mid-1970s.

At least three elements are necessary to support the argument that state fragility ranks among the legacies of the colonial experience in Africa. We need to identify the salient features of colonial states – and their process of formation – that resemble the distinctive traits of fragile state institutions. Once the similarity has been established, we need to understand why political independence from the former colonial powers did not remove or at least significantly alter these institutional features. Then, we need to describe the factors that contributed to their persistence in postcolonial states, as more than half a century has passed since the Gold Coast gained independence from Great Britain in 1957, paving the way for decolonisation in Sub-Saharan Africa.

3. COLONIAL STATES IN SUB-SAHARAN AFRICA

Four facets of the formation of state institutions in Sub-Saharan Africa can be related to state fragility.

- The first is their artificial character – the creation of colonial states introduced an element unrelated to the social, institutional and cultural characteristics of the colonised territories.
- The second is the extractive nature – the structure of state institutions was designed to transfer resources to the colonial power, not to foster local development.
- The third is their inherent extraversion – the state established tight economic links with the colonial power, in a relationship of political dependence.
- The fourth relates to indirect rule – a system of colonial administration initiated in the British Empire,⁶ but which was also used by Belgium and France in their colonies.⁷

European colonial powers transplanted institutional structures that were extraneous to the local context.⁸ The development of state institutions in precolonial times moved along different lines from those followed in Europe.⁹ Colonial states did not emerge from a time-consuming process consolidating informal institutions and mediating conflicting interests within society. Instead, they were externally imposed by the overwhelming military power of European countries. “The state [is] in most of Africa an essentially artificial one, ‘suspended above’ a society that would never have produced it and did not demand it”.¹⁰

The artificial character of state institutions contributed to their detachment from society.¹¹ The reliance on indirect rule does not subtract from this argument, as only the lowest layers of the colonial administration could be attributed to local people. Though most of them were traditional or customary chiefs, their roles – and most notably their relationships with the local communities – were reshaped by the colonial power.¹² The argument by Kaplan (2009) resonates with a line of reasoning that has been put forward in the development economics literature: Myrdal (1972) attributed the weakness of the state structure in the postcolonial period precisely to the exogenous introduction of state institutions, which instilled in the citizens an enduring sense of opposition to them, and a reluctance to abide to their rules.

Artificial colonial state structures were meant not to support the economic development of the colonised territories but to suit the economic interests of the colonial powers. The pursuit of these interests did not take the form of a vent for surplus mechanism. Instead, the colonial powers extracted natural resources and tax revenues from their colonies, which had to endure extremely high levels of taxation, which promoted local infrastructure development to a limited extent.

The extractive character of the colonial state is intertwined with its extraversion, oriented towards the colonial power.¹³ A powerful symbol of this orientation is the location of the capital cities along the coast. “Rather systematically, Europeans created capitals that moved power toward the ocean and away from the interior centres of power that Africans had slowly created”.¹⁴ For instance,

⁶ Lugard 1922.

⁷ Lange 2004.

⁸ Kaplan 2009.

⁹ Herbst 2000.

¹⁰ Luling 1997, p. 288-289.

¹¹ Kaplan 2009.

¹² Ranger 1983, p. 211-262; UNECA 2007.

¹³ Clapham 1996.

¹⁴ Herbst 2000, p. 16.

Accra became the capital of the Gold Coast rather than the inland Kumasi, which had been the centre of the Ashanti Empire, while Bamako replaced Timbuktu as the political core of Mali. The limited inward orientation of colonial states is also reflected in the poor road development that characterised the colonial period. Infrastructure was neglected where it did not lead directly to a financial return. Railroads, for example, were built to ferry raw materials from the interior to ports, but rarely to connect inland territories.

The high rates of mortality facing Europeans in Sub-Saharan Africa also shaped colonial rule, limiting the opportunities for extensive direct settlement.¹⁵ Colonial powers – notably Great Britain, but also, though to less extent, Belgium and France – settled in the colonies to a very limited extent, and resorted to indirect rule to administer them. The upper layers of the colonial administration were retained by colonists, while the colonial powers relied on traditional and customary institutions to maintain order outside the capital¹⁶, because the colonial administration had a very limited direct outreach in the rural areas.

The system of indirect rule fuelled decentralised despotism,¹⁷ as the colonial powers reshaped the relationship between the customary chiefs and the communities. In precolonial times, communities could dislodge chiefs from power, but only the colonial administration could confer or remove that power.¹⁸ This system greatly reduced the accountability of traditional and customary chiefs to their communities, who could wield their local authority to accumulate personal wealth, laying the ground for the subsequent privatisation of the state.¹⁹

These four features of colonial states in Sub-Saharan Africa – rather closely intertwined – resemble some distinctive features of state fragility. The artificial character of their formation detaches state institutions from society, hindering the political processes that can bring the expectations of the citizens and state capacity into equilibrium. The limited development orientation of fragile states resonates with the extractive character of the colonial states, while their inability to mobilise domestic resources can be related to the extraversion of state institutions established in the colonial era. And a bifurcated state structure reinforced by indirect colonial rule could have laid the ground for the neopatrimonial stance of some fragile states in Sub-Saharan Africa.²⁰

4. DECOLONISATION

With the exception of the Portuguese colonies, which went through a long and violent struggle for independence, and the South African colonies, the other Sub-Saharan African countries obtained the political independence from the former colonial powers in a few years after 1957, when the independent Ghana arose from the British Gold Coast. The peaceful transition from colonial rule to political autonomy was a clear opportunity for getting rid of the detrimental institutional features of colonial states. But the political elites of these new countries seldom went beyond a mere Africanisation of the bureaucracy, not coupled with substantial institutional change. Why did the institutional development of Sub-Saharan African states not experience a substantial shift at the time of independence?

A reduction of the artificial character would have required the indigenisation of state institutions, which could have reduced the mismatch between the formal and informal institutions. But several distinct factors hindered such a development. First, the administrative structures – and the power outreach – of several colonial states were rather weak. This induced national political leaders to be cautious about making big changes in an institutional structure that they aimed at consolidating. “They needed to take over a machinery of government in working order, rather than seek to create one from scratch within the unimaginable confusion produced by a simultaneous achievement of independence and reordering of the entire political structure”.²¹

Still, overly westernised legal, governance and education systems precluded local communities from taking advantage of their own resources, capacities and social networks and created unnecessary conflict between formal and informal institutions. Highly centralised governing structures in countries where formal state bodies remain ineffective and where alternative sources of income remain few force groups to compete for scarce state resources, accentuating political fragmentation in the process.

Furthermore, the leaders of many newborn states had been educated in Western countries – Julius Nyerere in the United Kingdom, Léopold Sédar Senghor in France and Kwame Nkrumah in the United States. And the leaders trained in African countries – such as Milton Obote or Félix Houphouët-Boigny – did so in academic institutions strongly supportive of western political values

¹⁵ Acemoglu et al. 2001.

¹⁶ Lange 2004.

¹⁷ Lange 2004.

¹⁸ Lugard 1922.

¹⁹ Bayart 1999.

²⁰ Mamdani 1996.

²¹ Clapham 1996, p. 35.

and institutions. They saw the indigenisation of state institutions as a return to precolonial political structures, detrimental to development.²² Traditional institutions had contributed to the functioning of the colonial states, which hindered relying on them to reduce the detachment between state structures and local cultural and political values.²³

The extractive character of state institutions in the colonial period was clearly detrimental to the development of Sub-Saharan African countries, but it could still suit the self-serving interests of political leaders. Acemoglu et al. (2001) argue that “in many cases where European powers set up authoritarian institutions, they delegated the day-to-day running of the state to a small domestic elite. This narrow group often controlled the state after independence and favoured extractive institutions”.²⁴

The extraversion of the states could not be removed instantaneously at the time of independence, because the dependence on external sources of revenues reflected deeply rooted features of Sub-Saharan African countries. For example, the road network was meant to connect with foreign countries, not to promote local economic development. Moreover, the extraversion could be in the interests of the political elite. Collier (2009a) suggests that Mobutu Sese Soko – who built his personal wealth from the revenues from exports of natural resources out of Zaire – had no interest in reducing the dependence on external sources of revenue.²⁵ That would have had to be matched by introversion in generating state resources. A greater reliance on taxation would have spurred a circle – virtuous for the society, vicious for him – of greater demand for accountability to citizens and a progressive strengthening of state institutions.

The lack of political willingness to increase domestic resource mobilisation was matched by a severe capacity constraint. Increasing taxes is challenging for a poorly developed state structure, which found it hard to broadcast its power outside urban areas, while most of the population lived in sparsely populated rural areas.

So, the political independence attained by Sub-Saharan African countries did not mark a substantial change in the development of state institutions. Hence, the second ring of the chain that is needed to relate current state fragility to the colonial experience is robust. There are solidly grounded bases that can be relied on to justify why the political independence attained by Sub-Saharan African countries did not produce a substantial shift in the development of their state institutions.

5. INTERNATIONAL CONTEXT AND CONTINUITY

Political independence was not matched by institutional development. Still, more than three decades have passed since the conclusion of decolonisation, so we need to complement the arguments about the lack of a substantial shift in institutions with factors that explain the persistence of some key institutional features. Although Sub-Saharan Africa itself presents notable experiences of successful institutional development, such as Botswana, they are the exception rather than the rule. Why?

Independent states in Sub-Saharan Africa were formed by “the stroke of an international pen,” as they immediately obtained recognition from the Security Council of the United Nations.²⁶ This is how “the states in the Bottom Billion came into existence,” with little attention to their economic or political viability. On their economic viability, Collier (2009a) observes that several newborn states were pint-sized, as the limited time span of the colonial experience had prevented the citizens of colonial territories to coalesce around a shared national identity.

The independence of South Asia from the British colonial rule produced just two independent countries in 1949, India and Pakistan, from myriad distinct precolonial political entities. But French West Africa split into several small countries, whose borders had been arbitrarily drawn. These countries were too small to be a state, meaning that their limited size prevented them from delivering security and accountability.²⁷ The arbitrariness of the colonial borders created “populations made up of disparate – and often incompatible – identity groups,” compromising the political viability of postcolonial states.²⁸

While the disparate tribal and ethnic identities clearly predated the colonial period, the colonial administrations determined the “immobilisation of populations, reinforcement of ethnicity and greater rigidity of social definition”, while precolonial Sub-Saharan Africa was not characterised by a “single ‘tribal’ identity, as most Africans moved in and out of multiple identities”.²⁹ Ranger (1983)

²² Clapham 1996.

²³ Note that the perception of the backwardness of informal institutions was matched – soon after independence – by a reliance of the political elites on customary and traditional chiefs as a source of political support. This attitude, while not reducing the mismatch between formal and informal institutions, contributed to the persistence over time of the detrimental side effects of the colonial system of indirect rule.

²⁴ Acemoglu et al. 2001. A similar argument is developed in Mamdani (1996).

²⁵ Collier 2009a.

²⁶ Collier 2009a.

²⁷ Collier 2009a.

²⁸ Kaplan 2009, p. 2.

²⁹ Ranger 1983, p. 248.

explicitly refers to “the invention of tradition in Colonial Africa”, showing that some distinctive features of postcolonial African societies, such as the relevance of ethnic or tribal affiliations, are *not* a legacy of the precolonial period, but rather arose – or were substantially strengthened – at the time of the colonial rule.

To provide a telling example of this dynamic, Newbury (1998) recalls that “the Belgian administration in Rwanda [. . .] sought to structure social order, to rationalise and standardise heterogeneous social relations [. . .]. In the 1930s, they issued identity cards that indicated a person’s ethnic category. [. . .] such measures did not create ethnicity; instead they served to mould its social salience. Thus, in colonial Rwanda, the Hutu came to be classified as second-class citizens. This was starkly illustrated in the allocation of new colonial social and economic resources”.³⁰ This example suggests that divided groups – around ethnic and tribal identities – were often the product of colonial rule, no less than the state structure is.

Newly born Sub-Saharan African countries were thus plagued by two structural problems – political identity fragmentation and weak national institutions – that together precluded the formation of any robust national governing system, severely undermining the legitimacy of the state and producing political orders that are highly unstable and hard to reform. Political fragmentation and weak governing bodies fed on each other, undermining attempts to build a legitimate and effective state. Ethnic divisions – and, for that matter, religious and clan divisions, as well as geographic and socioeconomic forms of political fragmentation – prevented the formation of “one of the most important requirements for making states work [. . .] the creation of apolitical bureaucratic structures (civil service, judiciary, police, army) supported by an ideology that legitimates the role of neutral state authority in maintaining social order through prescribed procedures and the rule of law”.³¹

Whereas many cohesive groups with long common histories have developed sophisticated political, economic and societal systems that maintain stability and foster economic progress, divided populations have no such mechanisms. Fragmented societies, when combined with the weak governmental structures, tend to gravitate towards “a suffocating miasma of vicious circles” whereby, as Putnam notes, “defection, distrust, shirking, exploitation, isolation, disorder and stagnation intensify one another”.³² Once such dysfunctional, unproductive patterns of behaviour come to predominate in a society, they will persist because, as North explains, the high degree of path-dependency of a given institutional framework provides “disincentives to productive activity [by creating] organisations and interest groups with a stake in the existing constraints,” which “is an important factor in explaining persistent low growth rates in developing countries”.³³

Nunn (2007) presents a model with multiple equilibria, demonstrating that an externally introduced institutional setting with insecure property rights and a low level of production, where the state extracts resources from the economic system, can persist even after the external source of extraction has been removed. “The society remains trapped in this suboptimal equilibrium even after the period of external extraction ends”, so political independence does not result in the removal of a socially undesirable institutional setting³⁴.

While most postcolonial states in Sub-Saharan Africa had limited economic and political viability to begin with, the political map of the region has not been altered since the end of decolonisation. “Since 1945 no state has disappeared as a result of military action by a neighbour”.³⁵ These countries have not been subject to an external military threat, crucial in the strengthening of European states.³⁶

Quoting Collier (2009b) at length, “decolonisation occurred following the most appalling international war in history and in the context of nuclear rivalry. Unsurprisingly, there was a sense that it was no longer an acceptable part of government behaviour: it was too costly and neighbourhood wars might escalate into global war. As a result of international pressure, including international mediation through the United Nations and regional groups such as the Organisation of African Unity, the incidence of international war radically diminished. [. . .] The Darwinian process by which strong states absorbed weak states, whereby Germany had reduced from over 300 states to one, completely ceased”.³⁷

External military threats had created the need for the introversion of the state, which needed to levy taxes to finance the military apparatus that was needed to face these external threats. The state’s need to mobilise domestic resources induced citizens to demand that it be held accountable for its uses of fiscal resources, thus imposing restraints on its actions. Moreover, the need to raise resources induced the states to introduce development-oriented institutions, such as securing property rights, because domestic resource mobilisation was crucially connected to the strength of the economic system. External threats also consolidated a shared national identity and strengthened the political process mediating the interests of the state and of society.

³⁰ Newbury 1998, p. 11.

³¹ Easterly 2000, p.12.

³² Putnam 1993, 177.

³³ North 1990, 99.

³⁴ Nunn 2007, p. 173.

³⁵ Collier 2009b, p. 4.

³⁶ Tilly 1990.

³⁷ Collier 2009b, p. 4.

Although the Sub-Saharan African states were not subject to external threats, they were highly insecure, but the threat was from internal rebellion, not neighbouring states.³⁸ The viability of rebellion was connected to the small size of the new states, increasing the chances of the rebels to defeat the army and seize power, while “big is safe”.³⁹ Protection from an external threat, a public good, leads the interests of the political elite and of society to coincide. But protection from an internal threat does not. Repression of an internal threat is a private good that parts of the society might not support. Nor does it contribute to strengthening a shared national identity.

Internal threats do not pose a severe threat to the stability of a government, as it has been estimated that just one of every five attempts at internal rebellion succeeds in overthrowing the government. Hence, the most severe threat for Sub-Saharan African ruling elites was the army, as coups had much better odds of success than rebellions.⁴⁰ This also hindered the functioning of the core mechanism in consolidating state institutions in Europe: strengthening the army. Mobutu Sese Soko deliberately weakened and divided the Zairian army across several lines to reduce the risk of a coup. This ended up with the paradoxical outcome of tiny Rwanda invading neighbouring Zaire in the 1990s.⁴¹

So, state fragility in Sub-Saharan African countries served well-defined interests of the local political elite. The enduring weakness of state institutions in the postcolonial period was also in line with the interests of the former colonial powers.⁴² Once they abandoned political control, they wanted to retain economic control – to keep extracting valuable resources from former colonies.

Aid from donor countries could also have consolidated the extraversion of postcolonial states, weakening the incentives for a more effective mobilisation of domestic resources. The aid selectivity criterion in the Monterrey Consensus was to reward recipient countries having an enabling domestic environment vital for mobilising domestic resources and making effective use of international investment and assistance.⁴³ But there is widespread concern that aid could have an adverse effect on this crucial facet of strengthening state institutions.

6. THE PATH-DEPENDENCE OF INSTITUTIONS – DETACHMENT AND EXTRAVERSION

The pattern of colonial settlement produced a strong and long-lasting influence on measures of current institutional quality.⁴⁴ The theoretical argument backing the empirical analysis – not restricted to Sub-Saharan Africa – is that the mortality rates facing the European colonisers had a strong influence on their pattern of settlement. Colonies where Europeans settled to a very limited extent – because of the high mortality rates – were less likely to adopt the legal and institutional framework of the colonial power. Such a framework was transferred to the colonies where European settlers demanded it, because they had a direct interest in replicating the development-oriented institutional framework that characterised European countries. But where settlement was limited – as in most of Sub-Saharan Africa, with the minor exceptions of the Portuguese colonies – the institutional framework of colonial states was most likely to have an extractive character.⁴⁵

It is not just the size of the direct settlement in the colonies that matters – it is also the system of colonial rule.⁴⁶ A study of 30 British colonies, half in Sub-Saharan Africa, tests the hypothesis that indirect colonial rule was detrimental to postindependence institutional development. The extent of indirect rule – defined as “the number of colonially recognised customary court cases in the total number of court cases in 1955” – has a significant influence on several measures of institutional quality, such as bureaucratic effectiveness, state regulatory burden, rule of law and lack of government corruption.⁴⁷ This evidence – though limited to former British colonies – is in line with the arguments advanced on the adverse legacy of indirect rule in Sub-Saharan Africa.

So far we have lent support to the idea that the colonial period had a role in laying the ground for the fragility of state institutions in Sub-Saharan Africa. One can even assert that the arguments here strengthen a specific interpretation of state fragility in Africa: that the region’s states failed before they formed.⁴⁸ Indeed, “the evidence is overwhelming that most of Africa’s collapsed states at

³⁸ Collier 2009b.

³⁹ Collier 2009b.

⁴⁰ Collier 2009b.

⁴¹ Collier 2009a.

⁴² Wallerstein 1975.

⁴³ Dollar and Levin 2006.

⁴⁴ Acemoglu et al. 2001.

⁴⁵ The long-lasting effects of the pattern of colonial settlement have been recently confirmed by Angeles and Neanidis (2009), who show that this influences the current development-orientation of the ruling elite, and – through this channel – the effectiveness of foreign aid.

⁴⁶ Lange 2004; Acemoglu et al. 2001.

⁴⁷ Lange 2004.

⁴⁸ Anderson 2004 quoted in Englebert and Tull 2008.

no point in the postcolonial era remotely resembled the ideal type of the modern Western polity".⁴⁹ This is why the *term failed state* – which often substitutes for the term *fragile state* without a clear shift in the underlying meaning – can be highly misleading.⁵⁰ State fragility has recently plagued countries that had long been regarded as success stories of economic and institutional development in the region, such as Côte d'Ivoire and Zimbabwe. But it is undeniable that state fragility – highly persistent over time – was manifest mainly in countries that had never benefited from effective state institutions.

Still, it is fair to say that this observation reinforces a puzzle that relates the limited time span of European colonial rule. Though one need not downplay the colonial legacy on the institutional development of postcolonial states, it is important to analyse whether – and eventually how – colonial rule interacted with some preexisting and more deeply rooted factors.

Herbst (2000) convincingly argues that the reach of colonial power in Sub-Saharan Africa remained little more than notional for decades. The Berlin Conference "enabled the Europeans to conquer Africa while doing as little as possible to control it".⁵¹ "In 1939 the average British district commissioner was responsible, with his staff of Africans, for an area roughly the size of Wales. Ruling over the roughly 43 million people in British tropical Africa in 1939 were a grand total of 1,223 administrators and 938 police. Similarly, there were 3,660 officials to govern 15 million Africans in French West Africa, 887 to govern 3.2 million in French Equatorial Africa and 2,384 to govern 9.4 million in the Belgian Congo in 1938".⁵²

These figures provide a telling measure of the limited ability of colonial states to broadcast their administrative authority over the vast territories they were supposed to control, which – besides the tiny size of the administrative staff – was further impaired by the poor development of roads in the colonial period.

Why did colonial powers not opt to consolidate their control over Sub-Saharan Africa? The most convincing answer relates to capacity rather than to willingness. The challenge posed by Sub-Saharan Africa to the European countries was not different from the one faced by "precolonial rulers in Africa [who had] struggled over the centuries to extend their power".⁵³ The author argues that "the fundamental problem facing state-builders in Africa – be they precolonial kings, colonial governors or presidents in the independent era – has been to project authority over inhospitable territories that contain relatively low densities of people".⁵⁴

This argument suggests that it could hardly be expected that European countries could have succeeded – in a few decades – to consolidate state institutions where precolonial rulers had largely failed – or not even attempted – to do so. Some features of colonial states can be related not only to the postindependence states, but also to the characteristics of the political entities in precolonial times, suggesting an even stronger path-dependence and persistence of institutional development in the region. The detachment between the rulers and society was reflected in what Herbst (2000) labels as "the primacy of exit" once the interests of the rulers and some social groups could not be reconciled. Exit took the form of mobility, as "migration to escape from social or political problems was [. . .] common among the Yoruba, the Edo, the Fon and many others".⁵⁵ Mobility resulted in a weakening of the rulers, as Barfield (1993) observes for the tribes of Southern Sudan: "The powers of the Dinka chief were weak [. . .] because rather than submit to his authority, dissident groups could move to a new territory if they were dissatisfied".⁵⁶

The prospect of exit through migration considerably reduced the opportunities for rulers to raise resources from the ruled community, as "scattered and mobile people are likely to generate neither the resources on which permanent government institutions rely, nor the social structures and values needed to uphold them".⁵⁷ This inherent difficulty determined the extraversion even of precolonial institutions, which gathered resources from the outside, through long-distance trading. Precolonial extraversion took its most distinctive form in the slave trade. Slaves to be sold were obtained either within the community, where people could be sentenced on the basis of alleged charges arbitrarily put forward by the judiciary institutions,⁵⁸ or from raids against neighbouring communities, breaking down trust and social capital.

This tragic form of precolonial extraversion produced long-lasting institutional consequences for Sub-Saharan African countries, which – once more – can be related to the current fragility of their state institutions. Nunn (2008) demonstrates that the slave trade hindered the economic development of Sub-Saharan African countries, and this effect goes through its detrimental effect on state institutions. Slave trade favoured the distrust towards state institutions and the consolidation of highly localised ethnic identities, which impede the smooth functioning of the relationship between the state and the society when the former is weak to begin with.⁵⁹

⁴⁹ Englebert and Tull 2008, p. 111.

⁵⁰ Cammack et al. 2006.

⁵¹ Herbst 2000, p. 72.

⁵² Herbst 2000, p. 78.

⁵³ Herbst 2000, p. 35.

⁵⁴ Herbst 2000, p. 11.

⁵⁵ Herbst 2000, p. 39.

⁵⁶ Barfield 1993, p. 38.

⁵⁷ Clapham 1996, p. 28.

⁵⁸ Nunn 2008.

⁵⁹ Collier 2009b; Kaplan 2009.

A recent contribution by Nunn and Wantchekon (2009) also demonstrates that slave trade exerted a long-lasting detrimental impact on social capital, as “individuals’ trust in their relatives, neighbours, and local government is lower if their ancestors were heavily threatened by the slave trade”,⁶⁰ which can act as a magnifier of the adverse effects of state fragility. Nunn and Puga (2009) show that slave trade transformed the ruggedness of the terrain into a blessing in disguise for Sub-Saharan African countries: while its direct effect is to hinder economic development, its indirect – and more relevant effect – was to protect the population from the raids of slave traders.

7. CONCLUSIONS

The geographical clustering of fragile states in Sub-Saharan Africa hints at some shared root causes of fragility that interact with country-specific driving factors. The arguments reviewed in this chapter lend support to the existence of historical factors that have laid the ground for the fragility of state institutions. The formation of colonial states at the time of the Scramble for Africa introduced some institutional features that still surface in the state structures that prevail nowadays. Neither the attainment of political independence nor the decades elapsed since that time have significantly altered the highly path-dependent evolution of Sub-Saharan African states.

Though it probably played a crucial role, the colonial period does not exhaust the historical factors that affect the fragility of state institutions in Sub-Saharan Africa, for the precolonial era also exerted an influence on the future institutional development of the region. Both the precolonial and the colonial periods did produce long-lasting effects not just on the formal structure of state institutions, but even on other social factors that determine the fragility or soundness of a polity. Specifically, the definition of ethnicity was deeply shaped both by slave trade in the precolonial era, and by its tightening and increased social salience by the colonial administrations.

While history matters for fragility, the analysis in this chapter does not allow for any deterministic shortcut from the history of Sub-Saharan Africa and the diffuse current state fragility. The diversity of the country-specific development of state institutions suggests that effective states can arise even in a context where the odds can be reduced by historical or geographical factors, though one should not impose on the strengthening of Sub-Saharan African states overly optimistic expectations.

⁶⁰ Nunn and Wantchekon 2009, p. 43.

CHAPTER 4

ECONOMIC FACTORS CAN MAGNIFY FRAGILITY

The evolution of state fragility is not a simple chain of causes and effects or the result of a single factor. It is affected by the interplay and combined outcomes of a range of risks and pressures, cumulative virtuous mechanisms and opportunity windows influencing the functioning and legitimacy of state machinery. Current state institutions derive from historical roots of state formation and their interactions with other conditions, such as geographic characteristics and ethnic and religious population groups.

Their evolution over time, in turn, is linked to exogenous and endogenous economic factors that, by inserting themselves in the institutional setting, can heighten state fragility. That can push state institutions along a downward spiral where their capacities are progressively jeopardised. Or it can strengthen the state by promoting political stability, legitimacy and accountability. Reforms, development policies, external economic shocks and forces – depending on the historical legacy and the commitments of national governments and international institutions – can be a driver of fragility but also a platform to exit fragility.¹

1. ECONOMIC FACTORS MATTER FOR STATE FRAGILITY – AND FRAGILITY MATTERS FOR THE ECONOMY

The path and level of economic development can affect a country's state fragility, but at the same time result from it.² Economic relations differentiate the interests and incentives to cooperate or compete, articulating society in distinct social groups. Moreover, accumulating resources for state-building and for internal social sharing is affected by the pattern of economic development. For instance, many postcolonial states, in an attempt to free themselves from their former colonisers that were buying their products (guaranteeing export markets), implemented inward-looking import-substitution policies, often increasing the role of the state in a highly suboptimal way.

This chapter analyses economic processes that characterise fragile states and are linked to symptoms of state fragility – from weak governance and corruption, to predatory behaviour and conflict. It also explores how these factors can interact to make states more fragile – or create virtuous circles of faster growth and stronger institutions. The aim is to highlight timing and timeconsistency in dealing with the different aspects of fragility. More precisely:

- *Trade openness* interacts with fragility through potential gains from trade that can help countries exit from fragility to resilience, but also through the value of disputed resources, the opportunity costs of contestation and the opportunities for collusion between private agents and public officials.
- *Foreign direct investment (FDI)* can force competition in the local economy by improving efficiency in the allocation of domestic resources and reducing the rents and negative side effects for public governance. In this case, FDI has a positive impact on growth, the extent depending on the sector and on the domestic employment mobilised. Without appropriate incentives and regulation, however, foreign investors can contribute to bad governance and corruption or participate directly or indirectly in the “war economy” and the funding of warlords and civil conflicts.
- *Natural resource wealth* can help state institutions perform their functions, with taxes from resource extraction accounting for most government revenues in fragile states (chapter 2). But fragile states are also likely to fall into vicious circles linking resource management to fading state capabilities – the resource curse. Resource abundance has a positive effect on growth in countries with good institutions, and a negative effect in those with poor institutions.³ So, because fragile states are characterised by poor institutions, natural resources are more likely to be a curse for them than for other African countries, where natural resources can enhance export-led growth. Intertemporal tradeoffs are very relevant in this situation. Natural resources offer income now, often at the cost of less income in the future. Their efficient management thus requires a long time horizon, not easy for governments that may be illegitimate or risk being overthrown.

¹ Fosu 2009.

² Robinson (2009) argues that Botswana provides an interesting example of the virtual interactions between economic development and state consolidation. In the aftermath of independence in 1996, Botswana had initial conditions similar to those of other Sub-Saharan African countries that followed a less successful and peaceful state formation and economic trajectory. It shared with those countries deep poverty, widespread illiteracy, poor infrastructure, a colonial legacy and multiple ethnic groups. The country was well-endowed with cattle, like Somalia and Sudan, and with diamonds, like Angola and Sierra Leone. According to Robinson, the formation of the modern state – built on “a long process of state and institution formation inherited from the Tswana states” – offers a clue in explaining Botswana's success while at the same time showing the crucial role of state institutions for economic development and the effectiveness of economic policies and paradigms.

³ Mehlum et al. 2006.

- *Drastic changes in access to land and water* has implications for environmental sustainability, food security and power relationships. Closely linked to trade and FDI, these factors can shape social stability, state fragility and economic growth.
- *Food security management* is a core function of government, so fragility has consequences for food security. Perceptions of the state's incapacity or unwillingness to address chronic food insecurity or to protect its citizens from food shocks can undermine the trust in public institutions and thus the legitimacy of government.

2. TRADE OPENNESS CAN INCREASE OR DECREASE STATE FRAGILITY

While state fragility may influence the effectiveness of trade openness on economic outcomes, international trade can produce an impact on fragility. The first effect of trade openness is to change the structure of relative prices of goods and services traded with the rest of the world.

In a context of imperfect governance and law enforcement, trade openness interacts with fragility to produce distributive consequences, fosters economic growth and affects the value of disputed resources, the opportunities for corruption, the opportunity costs of conflict, the choices between productive and predatory activities and the margins for rent-seeking.

In a well-defined institutional setting – where the state ensures security, property rights and contract enforcement – trade openness generally produces global gains. But in weak institutional settings, this is no longer so. And even when there are potential aggregate gains from trade, their distribution may be conflict generating and destabilising, especially when the country's conflict management institutions do not exist or have been dismantled. In addition, the structure of the comparative advantage of the country can affect this dimension. Indeed, the exclusion of some threatening groups from sharing the resources of the state is more likely when the country relies on “point-source” natural resources (fuels, minerals and plantation crops like sugar and cotton) than on manufacturing and diffuse agricultural exports (animals and agricultural produce grown on small family farms, such as rice and wheat).⁴ Examples such as the Biafra war in Nigeria in the late 1960s and the civil wars in Angola and in the Democratic Republic of Congo abound. In contrast, when production and benefits are widely distributed across geographical areas, ethnic groups or urban centres, the chances of civil violence seem much reduced.

Openness can also feed back on the vertical relationships between state and society. Trade openness, for example, may interact with the nature of state institutions and the type of redistributive policies chosen by elites. But it may also weaken local economic links between elite groups and other social groups. This, in turn, may produce negative incentives for the elite not to invest in local public goods or to favour inefficient rent-seeking policies.⁵

A number of analyses have investigated the empirical evidence on the links between trade integration and the emergence of domestic conflicts and civil wars. Chauvet et al. (2007) view trade as a motivation of civil wars or as a means to finance rebellion. Indeed, there are forces pushing in opposite directions: some lower the risk of wars, because of the high opportunity costs of conflicts, but some others increase it, because trade provides alternative sources of consumption and income to domestic production, which can be destroyed by the war.

Recent quantitative cross-country studies indicate that open countries are more stable than autarkic ones and less likely to experience civil wars, though important tradeoffs are detected. Martin et al. (2008) find that trade integration may deter wars, if the gains from trade are put at risk during a civil war. But openness may also act as an insurance mechanism and lower the opportunity cost of wars. More precisely, trade openness has contrasting effects on the probability of civil wars: it may deter the most severe ones (those that destroy the largest amount of trade) but may increase the risk of lower scale conflicts.

Focusing on Sub-Saharan Africa, and looking at the effects of trade openness and liberalisation on the outbreak of internal wars in 37 countries for 1980–2000, Bussman et al. (2005) support the view that economic openness has a positive effect on peace and stability, once the restructuring of the economy is over. In the short run, however, trade liberalisation may increase the risk of civil war and conflict during the implementation of the reform measures.

⁴ Isham et al. 2005.

⁵ An example is provided by Segura-Cayuela (2006). When political elites are unwilling to contribute to the provision of public goods and have no state capacity to raise taxes, they generally seek to appropriate resources through price distortions. But the extent of these appropriative policies is limited by the fact that the elites' own business rents may, to some extent, be complementary to what nonelite social groups produce. In such a context, trade openness reduces the opportunity costs of appropriative price policies. Indeed, with trade integration, product prices are likely to be set outside the domestic economy, disconnecting, in a sense, the elites' benefits from the distortions that they impose on the local economy. This, in turn, induces them to manipulate relative domestic prices more intensively to extract rents from nonelites. This reasoning suggests that trade integration may have harmful consequences in countries characterised by low political participation and weak elite responsiveness to the rest of society.

The foregoing discussion suggests policy tradeoffs between the short-term risks of trade reform and long-term gains from openness – and the prevention of severe conflicts and the persistent risks of lower scale tensions. One possible solution to such tradeoffs may be to compensate the immediate losers in order to reduce the short-term risks of political instability and allow enough time for the economy to reach the long-term situation in which enough individuals benefit from the reform.

3. TWO WAY LINKS BETWEEN FOREIGN DIRECT INVESTMENT AND FRAGILITY

While the literature recognises the negative impact of bad domestic governance and corruption on FDI inflows, recent work provides some empirical indications of the reverse effect of FDI on host country governance structures and the ultimate manifestations of state fragility: conflicts and civil wars. Recent research has not provided conclusive empirical evidence on the relationship between FDI and conflicts. Polachek et al. (2005)⁶ find that FDI reduces the likelihood of international conflicts, and trade and FDI complement each other in reducing conflicts, while Gissinger and Gleditsch (1999)⁷ suggest that in the poorest countries FDI has positive effects on economic welfare, but negative effects on distribution and political unrest. By contrast, Barbieri and Reuveny (2005) find that FDI in the least developed countries reduces the duration of civil wars, but not the likelihood of their onset.⁸

Empirical literature does not provide definitive support to the hypothesis a positive link between FDI and other dimension of state fragility such as corruption. A recent cross-country analysis by Larrain and Tavares (2007) suggests that FDI significantly decreases corruption in the host country, and their results are robust to the inclusion of several determinants of openness in addition to trade intensity and the average tariff, including dependence on natural resources, ethnic fractionalisation and the size of the economy and government expenditure.⁹ The relationship between FDI and corruption, however, may depend on the level of development and democracy of the host country. Zhu (2007),¹⁰ for instance, provides empirical support for the view that FDI inflows are likely to reduce corruption in more developed democracies and to increase corruption in less developed nondemocratic countries.

Though not definitive, these results highlight the challenges of FDI policies. First, overcoming state fragility and building strong democratic institutions may be necessary to capture the economic benefits of FDI. Second, while openness to FDI in fragile contexts can reduce the risks of intrastate conflicts, it also needs some form of regulation to promote the quality of investment rather than its quantity. Clearly important for FDI to contribute to the local economy is a legal and accounting framework that encourages transparency and accountability in investors' home countries.

Insights on the nexus between FDI and state fragility can come from a closer look at the main recipients of FDI flows in Sub-Saharan Africa. In only 13 out of 29 Sub-Saharan African fragile countries, the share of FDI inflows on GDP is above the Sub-Saharan African average (itself low, at 3.2%, compared with 4.8% for South East Asia). Most of them are rich in oil and natural resources (Angola, Chad, the Republic of Congo, Equatorial Guinea, Nigeria, São Tomé and Príncipe Sierra Leone and Sudan).¹¹ So, to understand the impact of FDI on state fragility, it is necessary to first understand the natural resource endowments.

So, while FDI can potentially have a positive impact on growth and poverty reduction, negative externalities prevail when the quality of institutions is low, enhancing the likelihood of conflict and bad management. The resulting vicious circle magnifies the impact of FDI on fragility. To transform this vicious circle into a virtuous one, governments (if legitimate) must commit to a fair distribution of rents by tying their hands. But the low credibility of governments in fragile countries makes a virtuous circle unlikely, unless external agents (such as international organisations) push for and guarantee the commitments.

⁶ Polachek et al. 2005.

⁷ Gissinger and Gleditsch 1999.

⁸ Barbieri and Reuveny 2005.

⁹ Larrain and Tavares 2007.

¹⁰ Zhu 2007.

¹¹ The share of FDI on GDP among these countries ranges from 5% in Angola to 27% in Equatorial Guinea.

4. NATURAL RESOURCE ENDOWMENTS CAN MAKE GOVERNANCE WORSE

Natural resource abundance presents a major opportunity for economic development and state consolidation. A resource-rich state has the funds to build capacity in performing its functions, particularly to finance public expenditure for economic development and poverty reduction. But perverse mechanisms can jeopardise this process: resource dependence can create economic instability, which can turn into political instability. Natural resource abundance may indeed hinder the quality of the governance, a key component of state functioning, and therefore increase the risk of state fragility. But for resource abundance to translate into good overall economic performance and higher standards of living, good governance is perhaps more important than it is in resource-poor economies. This interplay between resource endowment and poor governance can push state fragility along a perverse path.

Natural resources can thus be either a blessing or a curse for resource-rich countries.¹² Empirical studies confirm that point-source resources and resource rents increase corruption and retard economic and institutional development. Because several fragile countries have large endowments of natural resources and low levels of governance, we need to address how abundant natural resources can magnify state fragility (or what can be done to choose the opportunities given by resource endowments and transform the economy into an export-led one).

Developing a natural resource deposit – from prospecting through extraction and revenue management – is connected to the accountability of the government (box 4.1). Resource abundance increases the opportunities to take resources away from an incumbent government (see chapter 2). Rent-seeking can take different forms: from corruption to theft to conflict. Resource rents may indeed lead to the overthrow of the government through insurgency at either a regional or national level. Because changes in commodity prices affect the onset of civil wars, the most recent debate has concentrated on the channels for primary commodities to affect the risk of conflict.¹³

- First, primary commodity exports can finance the escalation and sustainability of rebellion.
- Second, rebellions can be motivated by the desire to capture rents, easier in a lawless context, such as one generated by conflict.
- Third, natural resources may increase the incentives for secession of resource-rich regions.

Resource abundance can also modify the incumbent government's interests and behaviours. Governance can deteriorate in several ways:

- Resource rents can reduce electoral accountability in a democratic system if the government uses some of the money to maintain power through patronage. Vote-buying is a more direct form of divorcing elections from accountability. So, resource rents can undermine the role of elections and make it more desirable for governments to retain power.
- In an autocracy, resource rents can reduce the efficacy of accountability limiting scrutiny, thus reducing the pressure on government to meet citizens' needs.
- Resource rents might alter the likelihood of democracy over autocracy.
- They can also delay fundamental changes to seriously dysfunctional policies.

The fact that resource abundance tends to guarantee rents, especially in fragile states where the rule of law is not fully implemented, can produce an environment in which it is hard to deliver stable economic progress – an environment more vulnerable to social and political unrest. There is ample evidence in the current literature that resource dependence creates economic instability and an inability to develop occupational strategies not strictly related to natural resources.¹⁴

If the state cannot set the legal framework of exploration and production licences for resource development and extraction, then maldistribution, rent-seeking and inefficiency are likely. Maldistribution comes about because of the spatial distribution of natural resources, rent-seeking because ownership is conferred by physical control of the territory and inefficiency because of the uncertainty about maintaining control. If control is perceived as likely to be temporary, the private incentive is to deplete assets quickly, even if doing so is socially more costly.

¹² See the background papers by Collier (2009) and Collier and Venables (2009) for an extensive analysis of this issue.

¹³ See the background paper by Reynal-Querol (2009).

¹⁴ Most literature focuses on the concept of resource dependence and not just availability, which creates a difference of countries that have a more diversified economy and do not depend so strongly on natural resources.

A further consequence is that the absence of property rights, very common in fragile countries, interacts with the lack of information. As with inventions, the incentives to undertaking searches are very low unless discoveries are protected.¹⁵ It is more efficient to wait for others to find natural assets and then take control of them, even if this may involve violence. So, many resources remain undiscovered.

Box 4.1: Codes of conduct and the Natural Resource Charter

International commitments through codes of practice or treaty obligations can be important. Examples are the Extractive Industries Transparency Initiative, the Kimberly process (requiring traded diamonds to be certified as not originating from areas of conflict) and the more recent Natural Resource Charter. The charter is a set of principles for governments and societies on effectively using the opportunities created by natural resources. Its purpose is to assist governments and societies of countries rich in nonrenewable resources to manage those resources in a way that generates economic growth, promotes the welfare of the population and is environmentally sustainable. It also aims to ensure that the opportunities provided by new discoveries and commodity booms are not missed.

What makes the Natural Resource Charter unique is that it is being built through a participatory process guided by academic research.

“The Charter comprises twelve precepts... that encapsulate the choices and suggested strategies that governments might pursue to increase the prospects of sustained economic development from natural resource exploitation!”¹⁶

- The development of natural resources should be designed to secure the maximum benefit for the citizens of the host country.
- Extractive resources are public assets, and decisions about their exploitation should be transparent and subject to informed public oversight.
- Competition is critical for securing value and ensuring integrity.
- Fiscal terms must be robust to changing circumstances and ensure that the country gets full value from its resources.
- National resource companies should be competitive and should not be responsible for regulatory functions or other activities.
- Resource projects may have serious environmental and social effects that must be accounted for and mitigated at all stages of the project cycle.
- Resource revenues should be used primarily to promote sustained inclusive growth through enabling and maintaining high levels of domestic investment.
- Effective use of resource revenues requires building up domestic expenditure gradually and smooth out volatile revenue streams.
- Governments should use resource wealth to increase the efficiency and effectiveness of public spending.
- Governments should invest in a way that enables the private sector to respond to structural changes in the economy.
- The home governments of extractive companies and international capital centres should require and enforce best practices.
- All extractive companies should follow international best practices in contracting, operations and payments”.

Several fragile states in Sub-Saharan Africa have adopted the Extractive Industries Transparency Initiative, with the aim of improving governance through the verification and full publication of company payments and government revenues from oil, gas and mining. Oil, gas and mining companies have agreed to support the initiative. Joining is a strong signal of government commitment to transparency.



¹⁵ The problem is analogous to the one analysed in Dixit (1989) for FDI. A recent example is the successful oil explorations in Ghana, which have followed the improvement in property rights.

¹⁶ Taken from: www.naturalresourcecharter.org/index.php/en/the-precepts, accessed on 5 October 2009.

Domestically, it is possible to create commitment mechanisms by entering long-term contracts and building reputation. It may also be possible to design fiscal constitutions under which a share of revenues is put aside for long-term use.

Indeed, Liberia and Niger have approached their aid partners for technical legal assistance on awarding contracts. In Mozambique, analytical work is fostering dialogue on public expenditure management and financial accountability in the context of rising revenues from mineral extraction. Some countries request support in auctioning licences and negotiating contracts with major investors, managing volatile commodity-related revenues and improving the composition and quality of public investments.

5. GOVERNANCE AFFECTS THE RELATIONSHIP BETWEEN LAND AND FRAGILITY

Dramatic changes in land access are usually influenced by government action. The scope is great for land tenure reforms and land policies – land taxation, titling and registration, and regulating land contracts and markets – to reduce poverty, increase agricultural productivity and sustain the environment. But land policies are not neutral, and they can trigger social tensions. African conflicts show that ill-conceived land tenure reforms have been underlying or aggravating factors. Limiting access to land for vast sections of society can result in grievances, frustration, food insecurity and imbalances in political power¹⁷.

In Zimbabwe, land reform begun in 1980 and later the “fast-track resettlement” had heavy impacts on the agriculture, resulting in massive job losses, food insecurity and violent reactions.¹⁸ Land is also an issue in other countries experiencing prolonged crisis such as the Democratic Republic of Congo, Somalia and Sudan.¹⁹ In the Nuba Mountains in Sudan, promulgation of the Unregistered Land Act in 1970, which abolished customary land-use rights and provided a legal basis for land acquisitions by large-scale mechanised agricultural projects, resulted in extensive disenfranchisement of small farmers and nomadic pastoralists: an estimated half of the total area of the plains (the best soils in the region) was taken up by these schemes.²⁰

More recently, a new phenomenon with potential important effects on land use and access has emerged in Sub-Saharan Africa. In the aftermath of the food and oil crises and despite the economic and financial crisis, a wave of farmland acquisitions by foreign and domestic investors has picked up and given rise to a hot debate. China, EU, India, the Republic of Korea and the United Arab Emirates governments and private firms seem to be the main investors in Africa’s land. But large-scale land deals with other investor countries, such as Egypt, Libya and the United States, have been reported by the international press. Preliminary evidence²¹ suggests that FDI in land in Africa tends to be in a small group of countries (Ethiopia, Madagascar, Mozambique, Sudan). But the trend is spreading to other destination areas of the continent. Recent large investments in farmland have been registered in Angola, the Democratic Republic of Congo, Ghana, Liberia, Nigeria and Tanzania.

The consequences for African agriculture and African people can be deep, persistent and not easily reversed. The scale is still largely unknown because of the limited qualitative and quantitative information and neither reliable nor transparent, but available evidence suggest this phenomenon is not marginal. In only five African countries (Ethiopia, Madagascar, Mali, Mozambique and Sudan), 2.5 million hectares of large²² land deals have been approved since 2004, and pending contracts would push these figures higher.²³ Still incipient, this building wave can be dangerous for the development of a fragile country. It is therefore important to monitor and prevent any possible negative effects of this “special” form of FDI in agriculture on social stability and state fragility (box 4.2).

Perceptions of the great availability and accessibility of farmland and underexploited water in Africa have created interest, but the recent trends in food and oil prices and the protectionist reactions of some major food exporters have been the trigger. Higher demand for food requiring land-demanding production techniques (such as meat and dairy produce), growing demand of energy alternatives to fossil fuel, worsening scarcity of water for productive use and slow growth in farm productivity – and, in some areas, reductions in farm production – all press for farm expansion. Food importers might be less willing to entrust their food security to international markets, and outsourcing food production has become a more feasible national strategy.

¹⁷ Vlassenroot et al. 2006.

¹⁸ Sachikonye 2003; Pons-Vignon and Solignac Lecomte 2004.

¹⁹ Alinovi and Russo 2009.

²⁰ Pantuliano 2008.

²¹ These evidences are based on Cotula et al. (2009); von Braun and Meinzen-Dick (2009) and GRAIN (2008).

²² Above 1,000 hectares.

²³ Cotula et al. 2009.

The link between FDI and foreign policies and national interests has been reinforced by the growing involvement of state-owned enterprises and sovereign wealth funds in international markets. Though most land deals are by private and foreign investors, and in some countries national investors are increasingly interested in farmland acquisitions, the investments are often government-backed, and both host and home governments promote and support large-scale land investments.²⁴

Many African countries are now attempting to take advantage of the rising value of land and water. This is why investor commitments on investments, infrastructure or employment are usually required in land deals. The underlying idea is to promote the country's economic development and to reduce poverty by exchanging abundant resources with scarce ones: land for capital, infrastructure, technologies and skills. In many African countries, and especially in fragile ones, the majority of the people live in rural areas. Agricultural development can lead poverty reduction and economic growth, while investments in infrastructure, know-how and technology can have significant positive spillovers.

Box 4.2: Large-scale land acquisitions in Africa – unpacking the land deals

By Lorenzo Cotula, International Institute for Environment and Development

Land deals are embodied in one contract or several. These need to be examined along with other legal texts defining their broader legal context, including national and international law. Contracts are complex and differ hugely among countries and even projects. More work is needed to identify trends in contractual practice and compare contractual options. But the analysis of a small number of contracts from Africa highlights some key issues.

PARTIES AND OVERALL STRUCTURE

In their basic form, land deals involve at least two parties. On one side is an acquirer, generally a private or government-owned company. But it can also be a foreign government acquiring land directly – for example, under a Special Agricultural Investment Agreement signed in 2002 between Sudan and Syria. On the other side of the deal is a land provider, either a government or, more rarely, a private landowner.

This apparent simplicity hides complexity. Each “deal” may involve multiple contracts and legal instruments – from a framework agreement outlining the key features of the overall deal, where the host government commits itself to make the land available to the investor, to more specific instruments (contractual or otherwise) that actually transfer the land or subsections of it. The extent to which land deals are negotiated or standardised varies across countries and the different stages of negotiation – with instruments to allocate land tending to be more standardised (as for the lease contracts in Mali's Office du Niger).

Each deal typically involves a wide range of parties through the multiple stages of preparing, negotiating, contracting and operationalising the project. First, multiple agencies within the host government are engaged. Even in countries where there is a central point of contact (one-stop shop) for prospective investors, usually an investment promotion agency, this agency alone will not deal with all aspects of the land deal.

Private investors have the advantage of being able to act as a single legal entity with a cohesive set of values. But even here the picture may be more nuanced. Among the possible scenarios, the implementation of deals signed between governments may be driven by private operators, either from inception or as part of subsequent efforts to regain momentum. For example, the Sudan-Syria deal enables Syria to delegate implementation to the private sector, subject to this issue being cleared by the government of Sudan.

LAND RIGHTS TRANSFERRED, SAFEGUARDS FOR LOCAL INTERESTS

Land leases, rather than purchases, predominate in Africa, with durations ranging from short terms to 99 years. Host governments tend to play a key role in allocating land leases, not least because they formally own all or much of the land. So, the extent to which governments take account of local interests in land, water and other natural resources is key.



²⁴ Cotula et al. 2009.

But host governments may contractually commit themselves to providing land before consulting local land users. In addition, the lack of transparency and checks and balances in contract negotiations encourages corruption and elite captures of benefits. In Mozambique and other countries, national law requires investors to consult local people before land allocations are made. In Ghana, deals with local leaders are common. But even in these cases, shortcomings in implementing legal requirements and in the accountability of local leaders are a recurrent problem.

Security of local land rights is also key. National laws vary, but some recurrent features undermine the position of local people. These include insecure use rights on state-owned land, inaccessible registration procedures, compensation for only the loss of improvements such as crops rather than land, and outdated compensation rates. As a result, local people can lose out, and even investors aiming for good practices suffer from a lack of clear government procedures and guidelines.

THE ECONOMIC EQUILIBRIUM OF LAND DEALS

Land fees and other monetary transfers are generally absent or small, due to the desire to attract investment, the perceived low opportunity costs and the lack of well-established land markets. This alone does not mean the deal is unbalanced: benefits to host countries may include investor commitments on levels of investment and the development of infrastructure such as irrigation systems.

Given the prominence of investment commitments in the economic equilibrium of land deals, enforceability is particularly important. Government land allocations are usually subject to the investor's compliance with investment plans for the first few years of the project, after which the allocation is confirmed. But African governments have rarely used this lever to hold investors to account, with the wording of contracts not specific enough to be enforceable. And one-off assessments at an early stage of implementation do not enable continued monitoring and sanctioning of investment performance over a project's lifespan.

Although the structure of land deals is extremely diverse, a small sample of contracts suggests that much more can be done to tighten key areas affecting economic equilibrium – particularly when these contracts are compared with contractual practice in other sectors like oil and gas. With considerable variation among cases, the contracts tend to lack robust mechanisms to monitor or enforce compliance with investor commitments, guarantee benefits to local people, promote smallholder participation in production activities (say, through contract farming, joint ventures with local landholders or other forms of collaborative production), maximise government revenues and balance food security concerns in both home and host countries.

Agricultural modernisation could help African countries moving up the value chain. Improving agriculture can induce livelihood diversification, generate employment and boost agricultural productivity (through improved seed varieties, know-how and technologies). Land investors and agribusiness could stimulate or directly invest in infrastructure, technologies and interventions for improving access to markets, while land taxes and concessions could provide fiscal revenues.

The risks, however, are worrisome. Changes in access to land and water resources, in resource management and in production techniques can affect environmental sustainability, food security, power relationships and social stability, especially when transactions are dominated by unbalanced negotiations. There is a risk of losing control over land for vast sections of society, with negative effects on food security, social stability and local labour and income opportunities. Land management by foreign investors can generate perverse incentives to use unsustainable production techniques, while land deals and bargaining might create opportunities for corruption and the appropriation of private gains at the expense of national long-term interests.

In some Sub-Saharan African countries, land deals are likely to create friction between the counterparts (box 4.3).²⁵ Acquisitions tend to be in more profitable areas with irrigation, access to water and infrastructure and areas that are close to markets. And most productive land and water sources targeted for investment are not “unused” resources. Even when classified as “idle”, they are likely to be already claimed by preexisting users. This phenomenon has been documented in Ethiopia, Mozambique and Tanzania.²⁶ It is consistent with the fact that in Africa, resource uses are likely to be underestimated because the large majority of local resource users do not hold formal titles, especially in rural areas. Production techniques that do not require continuous land use are widespread (grazing animals, long-fallow cultivation cycles). Therefore many people rely on common and free access resources for their subsistence.

²⁵ Cotula et al. 2009: GRAIN 2008.

²⁶ Sulle 2009; Nhantumbo and Salomao 2009.

International development agencies and the research community are working to provide recommendations and assistance to stakeholders (investors, governments, local populations and civil society) to realise the potential benefits of the renewed interest in agricultural investment. But these efforts are likely to be costly, with uncertain results.

Ensuring the poverty-reducing effects of domestic and foreign investment in Africa's farmland are very challenging, even more so in fragile countries (table 4.1). Such countries have little capacity to negotiate and to reconcile conflicts over resources.

Box 4.3: International investments in Sudan: the "breadbasket" of the Arab region²⁷

By Aysen Tanyeri-Abur, Northeastern University, Boston and Nasredin Elamin, Food and Agriculture Organization

Sudan has long been considered the "breadbasket" of the Arab region and a destination for agricultural investment, particularly from Arab countries. With 2.5 million square kilometres, it is the largest country in Africa, and one of the few countries in the region that still has untapped land and water potential. Neighbouring nine African countries and providing sea access for a number of them, it is strategically located. And it has a young population, the result of the rapid population growth in the last 30 years. But the resource wealth of Sudan is overshadowed by widespread food insecurity and poverty (21% of the Sudanese were undernourished in 2003-05; FAO, 2008).

Some recent trends in agricultural investment in Arab countries are influencing the rate and nature of capital flows into Sudan.

- Agriculture and water are emerging as new asset classes for investment because of radical policy changes in Saudi Arabia and worries of Gulf countries after high food prices and export bans of 2007, coupled with lower oil prices.
- Most of the investments are driven by private sector initiatives, although the state has a heavy presence in terms of support and facilitation.
- With one of the highest levels of food insecurity in the Arab region, Sudan is also where most of these investments are destined. More than 50% of the land investment deals in the region are taking place in Sudan.
- Recent investments and mergers may fuel increased investment in the region, as well as a more intraregional trade among Arab countries. And new trade blocs for food and oil such as those between the Association of Southeast Asian Nations and the Gulf Cooperation Council²⁸ may give way to other trade agreements to facilitate further investments in food and agriculture.

These developments have policy implications. Special attention needs to be given to sustainable investment options and a long-term perspective. In a region short of water and faced with the impossibility of becoming self-sufficient, learning from past policy decisions should be a priority.

Sudan may be relatively rich in land and water resources, but the Nile river basin is expected to be a water-scarce region by 2025.²⁹ Saudi Arabia has had negative experiences with its own food self-sufficiency policy, with severe resource depletion.³⁰ Although increased investment in agriculture and food production is crucial for addressing food security concerns in Sudan, unsustainable investments will have negative impacts on both investor and recipient countries and on all stakeholders involved.

The paucity of up-to-date detailed data precludes comprehensive examination of the structure and performance of FDI in Sudanese agriculture.



²⁷ This box does not reflect the views of the authors respective organizations, and the authors are solely responsible for the content.

²⁸ Association of Southeast Asian Nations and the Gulf Cooperation Council announced on 30 June 2009 that they are moving towards building a new trade bloc for food and oil, namely rice from ASEAN countries and energy and petrochemicals from the Gulf countries (Reuters 2009).

²⁹ Revenga et al., 2000

³⁰ Elhadj, 2008

A few observations on FDI flows to agriculture in Sudan are worth noting:

- FDI in agriculture has been low until recently, averaging less than 1% of total FDI.
- Most FDI in agriculture in Sudan is resource-seeking (box table 1).

Investments in Sudan can be summarised as follows:**Box table 1: Allocations of agricultural land 2000-08**

	Total investment (hectares)	Joint venture involvement (hectares)
Foreign investors	713,010	706,640
Saudi Arabia	365,190	48,300
United Arab Emirates	71,820	32,340
Republic of Korea	84,000	500,000
Egypt	5,500	126,000
Others	186,500	
Local	2,363,000	
Total	3,782,650	

Note: Commitments above 1,000 hectares. Not more than 10% of the land deals (foreign investors) are implemented. Processes have been initiated to cancel about 10-15% of the deals with foreign investors.

Source: Author's estimates based on communications with the Ministry of Investment, Sudan

- While the share in total FDI is low, FDI in agriculture has continued to increase in the last decade. Sudan's agricultural FDI grew at an average of 23% from 2000 to 2008, though its share in total FDI remained low, at around 2%.³¹ FDI hit 17% of the total in 2009 and is expected to grow to 50% in 2010.³²
- Intra-Arab FDI constitutes the bulk of FDI in Sudan, at about 93% of all investments, 38% from Saudi Arabia.
- Arab FDI in agriculture in Sudan goes back to the 1970s with the establishment of major projects, through the Arab Authority for Agricultural Investment and Development and other public-private initiatives. The Kenana Sugar Company is one example.³³ Impacts of these investments have been mixed.
- In Sudan, almost all FDI has concentrated in the three most developed regions in the country – Gezira, Khartoum and the River Nile, with 86% of all investment projects – and mostly in primary agriculture.³⁴ Policies need to address the regional disparities in investment.
- Capital intensity of FDI in Sudan is particularly high for Arab investments. The results also show that although 37% of the total FDI projects and 41% of total FDI capital are in mixed farming, only 25% of total FDI jobs are created by this subsector because of highly capital-intensive production techniques.³⁵

The institutional and policy framework is crucial in the continued flow of investment, in providing the right incentives for the allocation of investments and in addressing national food security concerns. Bridging the resource gap in agriculture, Sudan has focused on attracting foreign investment, with less attention given to maximising the positive impacts and domestic links of these investments in terms of improved food security.

The sudden influx of investment in agriculture has prompted new policies. Especially for resource-seeking investments, such as the new land acquisitions, leasing rates and other policies governing land use come into play. Most land in Sudan is leased at annual rates ranging from \$2.70 to \$35 per hectare, with the lower rates more common. The arrangements for leases depend on the individual cases. Several safeguards have been established by the Sudanese government to ensure that the use of land is in accordance with social and economic concerns. For example, the leases are first established for three years and then extended every seven years up to 99 years. There are also some key requirements from investors, requiring them to establish feeder roads, provide electricity and assign 10-20% of the land invested for local community use (to be negotiated with the locals).³⁶

³¹ Nur, 2009

³² Reuters, 2008

³³ Kenana Sugar Company was established in Sudan through joint public-private funding by Arab countries in the 1970s. This initiative has greatly increased the productive capacity in the country and expanded sugar production, making Sudan self-sufficient in sugar and even an exporter of sugar. But other social and economic impacts in the region have been mixed.

³⁴ Nur, 2009

³⁵ Nur, 2009

³⁶ Personal communication, Sudan Ministry of Investment.

Sudan, continues to be seen as the breadbasket of the Arab region, with the bulk of the recent investment in land being directed there. However, the question remains: which basic food commodities can profitably be produced in Sudan, particularly in the long run? To meet their food needs, Arab investors' priority is to invest in the production of basic food, particularly wheat. Given the climatic conditions in the country, the capacity for wheat production and productivity in Sudan remains to be investigated. Furthermore, Sudan has huge arable lands, but available water may not be sufficient to cope with future needs of expansion in the magnitude of the recent land leases to foreign investors, without even considering the secondary impacts of these investments on the rural populations and the crowding in urban areas.

Table 4.1: Ensuring the poverty-reducing effects of new investments in farmland

Conditions for sustainable poverty-reducing effects of large-scale land investments	Actions that can help to meet the conditions	Observations
Clear definition and recognition of preexisting resource-use rights.	Land titling of resources; mapping of community resources and informal use of resources. Involvement of local populations in decision-making process.	Most of Africa's people do not hold formal use or property rights of natural resources they have access to. Land titling requires time and resource costly processes. International experience shows that the badly designed land tenure reform and titling programmes can exclude more vulnerable groups and can create destabilising forces. Transparent and informed engagement of local stakeholders is particularly difficult in countries with low levels of education and weak social contracts between citizens and state institutions.
Design of contracts to balance between the priorities, perspectives and incentives of the investors, governments and local populations.	Implementation of transparent and participatory decision-making process. Technical assistance to capacity building for contract design, supervision and management.	See observations above. One of the main obstacles to this condition is the imbalance in bargaining power and negotiating capacity between investors, governments, and local communities and farmers.
Credibility and enforceability of commitments by investors and host governments. Identification and compensation of the rights of people negatively affected.	Baseline assessments of environmental, social and economic conditions. Monitoring of contracts by state institutions or international stakeholders. Actions to ensure transparency and dissemination of information.	Local populations usually lack financial and human resources to meet these conditions. Recipient governments are likely to lack necessary capacity and fiscal resources or willingness to maintain effective structures and impose credible threats of punishment for noncompliance. Problems of asymmetric information can hinder the definition, evaluation and monitoring of compliance.
Creation of better and more labour opportunities.	See actions above on contract enforcement and design. Strengthen involvement of trade unions and labour representatives.	Economic and financial sustainability of the projects might provide new investors with motivations to implicitly or explicitly retract their commitments for implementation of labour standards and labourintensive techniques. Trade unionisation of workers might be against interests of national elite.
Agricultural projects that increase productivity and are environmentally sustainable.	See actions above. Setting up and strengthening institutions (rules, agencies and structures) for environmental regulation and supervision. Technical assistance to new investors and mechanisms to adopt local knowledge of agricultural techniques.	See observations above. In many parts of Africa, land has a low resilience to agricultural intensification. External investors might lack an appropriate knowledge of local ecosystems and sustainable production practices. Contract farming arrangements, joint ventures, and systems of contract growing can improve absorption of local knowledge and benefit sharing among investors and local populations. But these results are likely to be jeopardised by asymmetric economic and power positions of the counterparts.

The EU can support international initiatives for a code of conduct, but it can also help African farmers and populations directly enjoy the benefits of the increased value of African farmland in the current global market by strengthening its actions on long-term programmes for agricultural development and assistance to small-scale farmers. It can leverage its role as a political and economic actor in international negotiations, in diplomatic relations and in global food markets. It can attempt to contain mechanisms that stimulate land demand, such as controls on exports by the main food exporters and energy policies promoting biofuels rather than energy efficiency.

Assessing the contribution of FDI to food security is not an easy task. Not only it is difficult to predict the future development of any investment, it is also a daunting task to address concerns of the various stakeholders (private sector of investor and host countries as well as the governments). Added to this are the different food security concerns and the differences among the countries in terms of resources and incomes. In order to safeguard the concerns of the various parties, it may be useful to develop a framework to highlight the particular aspects of investments, which need to be evaluated so that the negative impacts can be minimized in the future and they can be rendered more sustainable. An important point is also to consider past investments of the same nature and identify lessons learned.

6. HUNGRY POPULATIONS AND FRAGILE INSTITUTIONS

Food insecurity, tightly linked to state fragility, is clearly one of the main threats for African countries.³⁷ The focus here is on how institutional fragility magnifies the risk of acute food insecurity and on what can be done to achieve the first Millennium Development Goal (halving the proportion of people who suffer from hunger by 2015).

The recent food crisis highlighted the extreme vulnerability of Sub-Saharan African fragile countries' food security to external shocks, mainly because of the low (and stagnant) productivity of African agriculture in the past two decades.

This stagnating productivity went hand in hand with increasing demand, due partly to international factors (increasing demand in China and India) and to population increases, which left most fragile African countries net food importers and substantially increased vulnerability, making a food crisis more likely.³⁸ An anti-agricultural bias induced a move towards urban areas and increased rural-urban inequalities. This stimulated an increase in violence and political insecurity in urban areas, which, in turn, has increased the resources for solving security problems in the cities at the expense of rural funding – a vicious circle. And the high migration to cities, coupled with limited investment in rural areas, has implied less agricultural production, inducing an increase in food imports, further undermining the capacity of agriculture to produce.

A food crisis can increase state fragility along the dimension of legitimacy, as with the food riots induced by the recent spike in the international food prices. But this situation can change if net food buyers become net food sellers (as happened in South and East Asia during the green revolution). Food sellers would raise their incomes and lower the costs of food, pulling people in both fragile and other countries out of poverty, thanks to increased demand.³⁹ But for the multiplier to start, markets need to work properly. In fragile countries, however, there are many obstacles to market mechanisms, because farmers face limited access to credit and high costs of obtaining information and enforcing contracts. With poor access to formal finance, traders exchange small volumes, trade with areas that are geographically close and increase the likelihood of volatile prices.

Among fragile countries, those in conflict are most at risk of food insecurity. Establishing a causal relationship is not straightforward, but political instability often arises in food-insecure countries. Conflicts and economic collapses are regarded as the cause of more than a third of the food emergencies between 1995 and 2003, while civil strife and refugees or internally displaced persons have been cited as the main reason for more than half the food emergencies in Africa.⁴⁰ Conflicts usually reduce agricultural production and income from cash crops and livestock. According to the Food Agriculture Organization, conflicts caused Africa to lose more than \$120 billion worth of agricultural production in the last third of the 20th century. Food production declined in 13 of 18 conflict-ridden countries surveyed.⁴¹

The long-term consequences for agricultural activities can also be severe, while indirect effects and negative externalities can threaten food security in neighbouring countries. There is an interactive, and possibly multiplicative, relationship between the impact of conflict and warfare and agricultural development. Mozambique lost 40% of its assets in agriculture, infrastructure and communication during its 20-year civil war.⁴²

³⁷ UNCTAD (2009) estimates that 300 million Africans face chronic hunger.

³⁸ African countries furthermore import major staple commodities, such as wheat and rice (UNCTAD 2009).

³⁹ This trend occurred in China in recent years, until November 2008 when the economic and financial crisis threatened to send "new" urban workers back into rural China.

⁴⁰ Flores 2004.

⁴¹ Stewart et al. 2001.

⁴² Collier et al. 2003.

Food production problems in countries affected by social disorder or conflict can increase the need for food imports and push up food prices in neighbouring countries. In Uganda, the recent increase in food demand from regional trading partners, such as Kenya and southern Sudan, exerted upward pressure on food prices.⁴³ And poor postconflict management can hinder a country's agricultural and economic development. The return of agricultural communities to their original landholdings, for example, does not always produce the intended result. In Sierra Leone, measures to permit residents to return to their agricultural land and way of life were prone to elite takeover.⁴⁴

By contrast, food insecurity can encourage fragility. Underinvesting in agriculture heightens the possibility of conflict, as does competition for food or a lack of entitlements to food access.⁴⁵ Rebellion and government collapses and conflicts in Ethiopia, Rwanda and Sudan have their origins in food crises caused by natural factors (such as droughts) and the mismanagement of agricultural relief and development aid.⁴⁶

Food security is also closely related to access to water. In fragile countries, water shortages affect human and livestock consumption, and irrigation may become a problem. The use of fertilisers, mainly imported and expensive, is also low.

7. CONCLUSIONS

A country could end up in conflict or peace – or food crisis or no food crisis, or being a food exporter or not, or a mineral exporter or not – depending on the history of relevant variables and the country-specific interaction of the different factors affecting fragility. “History matters,” and such persistence makes fragility an even bigger challenge.

The interplay of different economic factors that affect fragility can generate nonlinear effects. FDI and trade, conflicts and food insecurity, and conflicts and natural resources can induce a virtuous circle of attracting more FDI and stimulate growth, but they can also start a vicious circle of weak institutions and corruption.

Persistence is not the only issue. Time also matters: the short horizon of government decision-making is likely to lead to excessive current spending and opportunistic behaviour. Fragile countries, always reacting to emergency situations, have a much shorter time horizon than other countries. A short horizon is exacerbated by the inability to commit, so even a government that is taking a long view may have its decisions influenced by the inability to commit.

These considerations emphasise the importance of time and persistence, because the likelihood that a temporary shock can have a permanent effect on the fragility of a country is very high. They also emphasise how important it is to account for the interactions between different economic factors – and for some time-consistency issues particularly relevant for fragile countries⁴⁷.

⁴³ Benson 2008.

⁴⁴ Maconachie 2008.

⁴⁵ DFID 2001.

⁴⁶ Messer and Cohen 2006; Messer et al. 1998.

⁴⁷ For instance, if governments have to attract mineral companies to invest in prospecting or in developing a mine or oil field, the companies face a hold-up. Once the investment is done and regardless of promises, the investors have lost their bargaining power: governments have an incentive to appropriate resource rents. The commitment problem is part of all investments, but more acute in natural resource exploitation and even more so in fragile countries. The capital investment required for resource extraction is typically far higher than for other activities, so more is at stake, and the investment is typically lumpy and cannot be moved. Because the investment is in fragile countries, governments are less accountable.

SECTION TWO

FROM FRAGILITY TO RESILIENCE



CHAPTER 5

FRAGILITY VERSUS RESILIENCE

The resilience of a socioeconomic system depends on the ability of its different layers – household, community and country – to adjust to both internal and external shocks. It is a dimension of development that can no longer be overlooked. Building and maintaining resilience promote human well-being.

In a static world, the degree to which members of a social system or group (households, communities, states) can control their destiny depends on the rights, identity, decision power and problem-solving mechanisms attached to membership. The capability of individual members to pursue their objectives and aspirations depends on how the group:

- Generates solidarity among its members and guarantees a minimum set of resources, services and rights.
- Allows its members to act within a normative system.
- Has the institutional mechanisms to resolve the problems of those members.
- Offers members a degree of influence in the group's governance.¹

In an evolving world, socioeconomic systems experience changes, and shocks can affect these elements. So, the capacity to maintain or reorganise these conditions enables a system's members to exert their capabilities over time. In other words, if the capacity of a social system promotes well-being among its members, its resilience makes this functionality durable.

How do different societies build resilience, and on which components and mechanisms is resilience based? Two arguments can be put forward:

1. Proper functioning of the state supports the resilience of a socioeconomic system, because it enhances human capabilities both in stable situations and, to a greater extent, in times of distress.
2. In a socioeconomic system, managing adaptation processes in reaction to changes is not restricted to state institutions. In every society, nonstate actors elaborate their own capacities and systems for self-organisation, adaptation and learning. The sources of resilience that originate in civil society include social cohesion and networks, social memory,² bonds of mutual trust and of penalisation for wrongdoing, informal and private institutions regulating economic activities, resource use rights and dispute resolution.

Fragile state institutions can co-exist with resilient societies, but the result is unlikely to be socially beneficial and stable. Indeed, state fragility tends to erode the resilience of civil society's systems and of the socioeconomic system overall. By contrast, resilient households, communities and civil societies can help protect the population from the costs of state fragility.

Sub-Saharan African civil societies have adapted creatively to repeated crisis episodes, and they have developed sophisticated and deep-seated survival, coping and adaptive mechanisms ranging from intrafamily and community insurance systems to traditional pastoral land management.

Despite these resilience mechanisms and the attempts by nonstate actors to partially complement or substitute for state services and functions, civil societies have not been able to fully cushion the human and developmental costs of political, economic or climate shocks or of state fragility.

¹ Stinchcombe 1975.

² Folke 2006.

1. ENHANCING RESILIENCE

Resilience, initially developed in the natural sciences, refers to the ability of a system to adjust to a perturbation and maintain its core functions unaltered.³ The resilience of a system therefore has to be assessed in relation to its functions. When applied to an economic system, resilience is about the capacity of the market and its supporting institutions to “allocate resources efficiently or to deliver essential services”.⁴ When applied to a socioeconomic system, resilience is about its capacity to enable society’s members to pursue their well-being and to satisfy needs and wishes that they could not fulfil if they were in isolation.

The resilience of a system – an inherently dynamic concept – can be gauged from its capacity to react to the changes and shocks by activating adequate adaptation mechanisms (box 5.1).

Box 5.1: Defining resilience and vulnerability

Resilience and vulnerability are concepts adopted in different disciplines, ranging from economics to psychology, and from ecology to security. Like other attributes of a system, these terms are prone to imprecision, confusion and different interpretations in their use. This report uses the following definitions:

Resilience is the “capacity of a system to absorb disturbance, undergo change and still retain essentially the same function, structure, identity, and feedbacks”. This is the definition elaborated within the *Resilience Alliance*, a multidisciplinary research network that has explored the topic since 1999.

Vulnerability is the susceptibility of a person, group or a system to be harmed by shocks. Vulnerability is the result of the size and frequency of the shocks and stresses, the exposure to the shocks and the capacity to react to the shocks, that is, the resilience.

Structural vulnerability is the vulnerability to factors that are durably independent from a system’s capacity to react to changes and shocks. Structural vulnerability thus depends on the size and frequency of the shocks and stresses – and the exposure to the shocks.

Resilience is also an important ingredient of sustainability. Sustaining human well-being over time requires limiting the degree to which socioeconomic and ecological systems are stressed. Resilience refers to adaptability to changes and new stresses. Resilience is essential to sustainability because shocks, perturbations and mutating conditions are inevitable and usually unpredictable – while the need to reduce the pressure of forces on socioeconomic systems is necessary for sustainability because those forces can undermine resilience.

2. WHAT DOES A RESILIENCE-BASED APPROACH IMPLY?

A resilience-based approach has multifaceted – and possibly far-reaching – implications for the development discourse. It influences the priorities of the development agenda, the design of aid policies and the appropriate analytical framework. The resilience perspective entails the acceptance of the limitation of policies based on steady-state thinking.⁵ In addition, new objectives and tradeoffs can arise from the application of this approach.

2.1 TRADEOFFS AND COMPLEMENTARITIES BETWEEN LONG-TERM AND SHORT-TERM PERSPECTIVES

A possible tension with current practices arises from the need for fast reactions to emergencies, which could jeopardise long-term development. For instance, humanitarian food interventions and service provision by international and nongovernmental organisations protect people in situations of extreme risks, but agricultural development is likely to be low in socioeconomic systems excessively reliant on food aid.⁶ And the separate structures managed by external actors run the risk of bypassing state institutions

³ Holling (1973) defines the notion of resilience as the amount of disturbance a system can absorb without shifting to an alternative regime.

⁴ Perrings 2006, p. 418

⁵ Folke 2006.

⁶ Alinovi and Russo 2009.

and preventing their consolidation.⁷ This tradeoff, however, must not be overstated. Urgent interventions do not automatically exclude long-term strategies. And because an exposure to repeated shocks can erode resilience, short-term responses can be in line with a resilience-based approach.⁸ They can avoid the emergence of fragility traps by learning from the best practices in many years of interventions in complex humanitarian crises.

2.2 TRADEOFFS BETWEEN RESILIENCE AND EFFICIENCY

Economic efficiency and economic growth are necessary, but not sufficient, conditions for poverty reduction. A resilience-based approach would question development policies that see only efficiency and economic growth as pivotal in increasing human welfare. By contrast, growth-maximising policies could in some cases undermine the resilience of a system, endangering its sustainability. For example, export-oriented policies that promote efficiency and enhance a country's growth potential can also reduce its resilience. How? By creating pressures to specialise in primary sectors, which are exposed to wide price fluctuations in international markets. As Perrings (2006) observes, concentrating assets in areas of activity that yield the highest short-term returns will almost certainly reduce the resilience of the system as a whole.⁹

2.3 NEW ELEMENTS OF ANALYSIS IN THE FORMULATION OF DEVELOPMENT STRATEGIES

A resilience-based approach tends to expand the purposes and the requirements of effective development policies. Policy design should be informed not only by static analyses and outcome monitoring but also by "resilience assessments." An analysis of the sources of resilience in a socioeconomic system would require a better understanding of the mechanisms of adaptability, learning capacity, self-organisation, decision-making processes and collective action. These elements of analysis could complement the study of social capital and social cohesion, household assets, exposures to risks and shocks and options for citizens and households to tackle shocks.

3. STATE FRAGILITY UNDERMINES SOCIOECONOMIC RESILIENCE

The processes for people to improve their well-being depend on interactions between different levels of the social structures, such as household, local, state and global community and different types of institutions ranging from markets to political, cultural and legal systems, to social capital and formal and informal systems, to regulating resource use rights, and to dispute and conflict resolution.

Box 5.2: Economic growth, development and well-being in fragile countries

By J. Allister McGregor, Institute of Development Studies, University of Sussex.

Some time ago W. Arthur Lewis observed that economic growth was not the purpose of development, but a means to increase the choices available to people. Now widely recognised, this key message has been elaborated by many prominent development thinkers. But it is not always consistently applied in policy and practice.

The recent multiple crises of the global economy, of global governance and of the global environment have given impetus to a call for readjusting how we understand development and how we organise international development policy and practice. There are widespread calls for a more human approach to development thinking (see the Sarkozy Commission Report 2009), built firmly on the recognition that the purpose of development policy is to provide the societal conditions for people to achieve well-being and to attack the conditions that produce human suffering.

In fragile developing countries, the challenges of rebuilding the societal conditions for human well-being are acute. In many of these countries, people and communities generate their own social conditions for surviving and thriving. They band together in local arrangements. They pay private militias for physical security. They may depend on local business bosses for market opportunities. And they may fall back on traditional systems of justice to enforce some basic law and order. While these arrangements may provide the barest conditions in which to get on with life, they also usually involve compromises that cannot be considered good for human development and well-being. Some key needs may be met, but freedoms may be sacrificed, and high levels of instability and insecurity reduce the overall quality of life.



⁷ Manor 2007.

⁸ Guillaumont and Guillaumont Jeanneney 2009.

⁹ Perrings 2006.

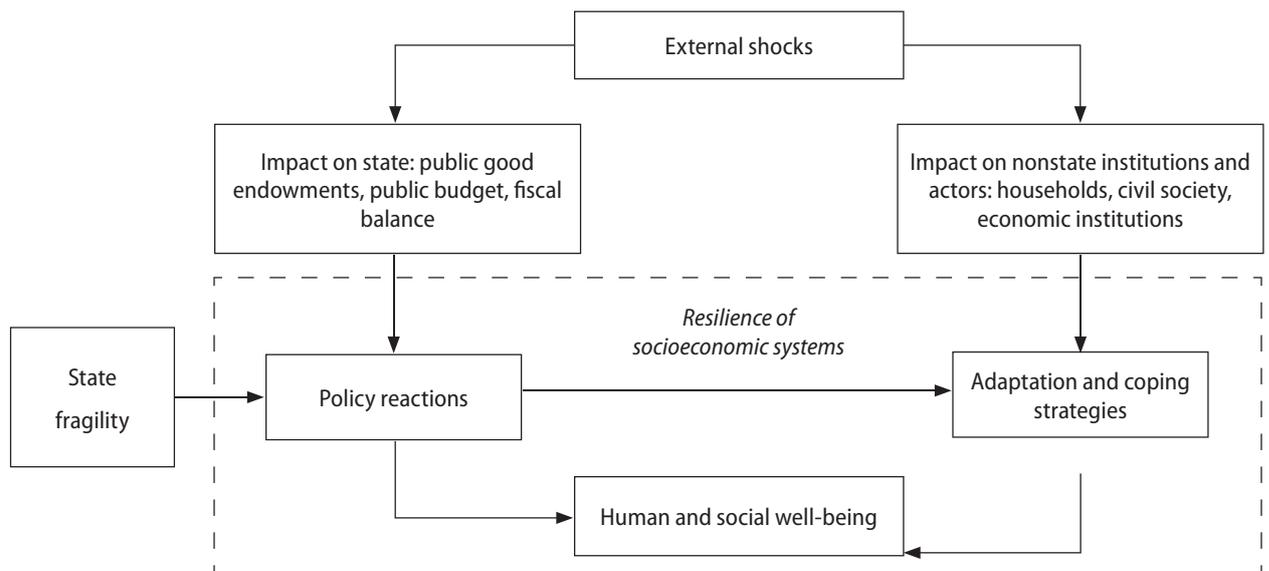
From this perspective, development efforts in these fragile contexts should proceed from an analysis of what is already providing some conditions for well-being and then pragmatically work with and build from them. This almost certainly involves engaging with a range of different actors beyond the state, such as self-help associations, local civil society organisations, militias and local business networks. The developmental purpose of such engagement is to strengthen the positive dimensions of the societal conditions for well-being and to steer these organisations and institutions away from their more harmful practices and procedures.

Using this well-being framework, the immediate priority in fragile and failed states is to establish who the most vulnerable are and who experience the most severe well-being failures as a result of state breakdown. This agenda of well-being focused engagement can support the first steps in reconstructing a basic social contract and the foundations for effective governance.

The resilience of a socioeconomic system – intended as a complex body of functionally interdependent state and nonstate actors – is shaped by the resilience of all its components in performing their functions, by their reciprocal influence and their capacity to constructively interact in order to manage the whole system and its trajectory. The concept of resilience can be profitably applied to all levels of a socioeconomic system, from households to local communities and to state institutions.¹⁰

State institutions are a crucial part of this complex system. The resilience of a socioeconomic system can be ensured or strengthened by the coping and adaptation strategies implemented at its different levels.¹¹ At the same time, the state shapes the resilience of the other social structures because it sets the governance mechanisms in society, delivers public goods, provides basic services and protects citizen safety and security, all essential for building human capabilities (figure 5.1).

Figure 5.1: Interactions between state fragility and socioeconomic resilience



Conversely, state fragility can undermine the resilience of a socioeconomic system. Economic and human development, resilience and the strengthening of state institutions are closely intertwined. If economic development can strengthen state capacity and create demand for the “state”, the formation processes and elements of functional and legitimate state entities help people to perform their economic activities and to pursue their well-being even in the face of changes.

The capacity and the evolution of state institutions cannot be analysed in isolation. If, for instance, households or communities are better able to resort to effective coping strategies when they have to deal with external shocks, this reduces the extent and pressing character of the political demands that they express. State fragility can be influenced and mediated by social resilience.¹² State-building can thus be effectively pursued by focusing on all layers of the socioeconomic system, not just state institutions.

The struggles and alliances between the state and other social organisations (families, clans, political parties, multinational and domestic enterprises) define how society and the state create and maintain the rules guiding collective action, power and distribution

¹⁰ For an application of resilience analysis at the household level, see Alinovi et al. (2009).

¹¹ Engberg-Pedersen et al. 2008.

¹² Engberg-Pedersen et al. 2008.

of the benefits and costs.¹³ A mutually reinforcing process can arise from the interaction between those Migdal (1988)¹⁴ calls *strong states* and *strong societies*: “a strong civil society provides a base of legitimacy and a capacity for activity on which state can build, but civil society also needs the state for the provision of certain services”.¹⁵

The next chapter sheds light on the nexus between state fragility and socioeconomic resilience by discussing the impacts and channels of transmissions of the global downturn in Sub-Saharan African fragile countries, as well as the potential capacity of their macroeconomic systems to tackle the crisis. Acknowledging that macroeconomic resilience is only one part of socioeconomic resilience, the analysis can help in understanding the relevance of state fragility for the capacity of Sub-Saharan African countries to cope and adapt to major shocks.

¹³ Migdal 1988.

¹⁴ Migdal 1988.

¹⁵ Spalding 1996, p. 66.

CHAPTER 6

AFRICA'S FRAGILE STATES HIT HARD BY THE GLOBAL FINANCIAL CRISIS

When the current economic crisis broke in the summer of 2007, there was a widespread perception that Sub-Saharan Africa was going to be affected only to a limited extent, with fragile countries no exception.¹ The low integration of shallow financial systems with the European and the US capital markets appeared at first to shelter them from its worst effects. But as events continued to unfold, this perception proved wrong. Even if the wealth effects of the crisis are less pronounced than for other developing countries, Sub-Saharan Africa, especially its fragile countries, proved particularly vulnerable to trade links and to disruptions of trade finance.²

The reliance of Sub-Saharan African countries on international trade, and thus their exposure to shocks from abroad, have increased in the last 10 years. African economies have become more sensitive to falling international demand, especially in an unprecedented synchronisation of economic cycles, which limits the benefits from diverse trading partners. Moreover, because funds devoted to official development assistance tend to follow donor country economic cycles, despite the commitments to maintain and even increase aid, fragile Sub-Saharan African countries are likely to face a decline in aid, at least in the short to medium run. Despite repeated calls in international meetings to respect aid commitments, and even if donors do live up to their promises and keep aid as a share of GDP constant, aid could fall substantially, because of the drop in donor countries' GDP and possibly because of unfavourable exchange rate movements (such as the recent devaluation of the pound against the dollar). Remittances are also expected to decline after a long period of steady growth.

1. THE DAUNTING CHALLENGES OF THE CRISIS: BRINGING TO A HALT YEARS OF CONTINUED PROGRESS

The 2008-09 crisis ends a prolonged period of world economic growth and globalisation during which world trade grew twice as fast as world GDP. The growth of GDP started to decline in 2008, and the contraction spread to all regions. Indeed, the pattern of decline, the worst in decades, resembles the collapse in 1929-30. The current crisis undermined the drivers of the recent globalisation phase: open markets, globally integrated production chains and many more footloose international companies.

The slowdown of world trade was much sharper than that of GDP, even sharper than during the Great Depression.³ This effect could be due to the general synchronisation of cycles among countries. It could also be traced to the larger weight of intermediate goods in trade, in turn due to the fragmentation of production – which, after stimulating rapid growth over the last 10 years, magnified the decline.

The economic and financial crisis came on top of a period of highly volatile commodity prices and exchange rates, which increased uncertainty and strengthened a vicious circle of falling trade flows and investments. It occurred when Sub-Saharan Africa had built a solid momentum for growth.⁴ Before July 2008, Sub-Saharan Africa recorded strong growth, and fragile countries – whatever the definition – were no exception. The current crisis threatens to interrupt this positive trend, even though the region is more equipped to cope than in previous downturns.⁵

During the recent period of growth, Sub-Saharan Africa became more integrated with the rest of the world, as reflected in its rising (but still low) share in global exports and in GDP (figure 6.1).⁶ Fragile countries, on average less integrated than other Sub-Saharan African countries, followed the same trend. The increasing international integration has exposed Sub-Saharan African fragile countries much more to disruptions in trade and to other shocks. It also had a marked effect on tax revenues (and in some countries on tax policy), with reduced receipts from trade taxes. The challenges of globalisation for resource mobilisation are exacerbated by the recent crisis, which has lowered the tax base.

¹ See IDS 2008 and IMF 2008.

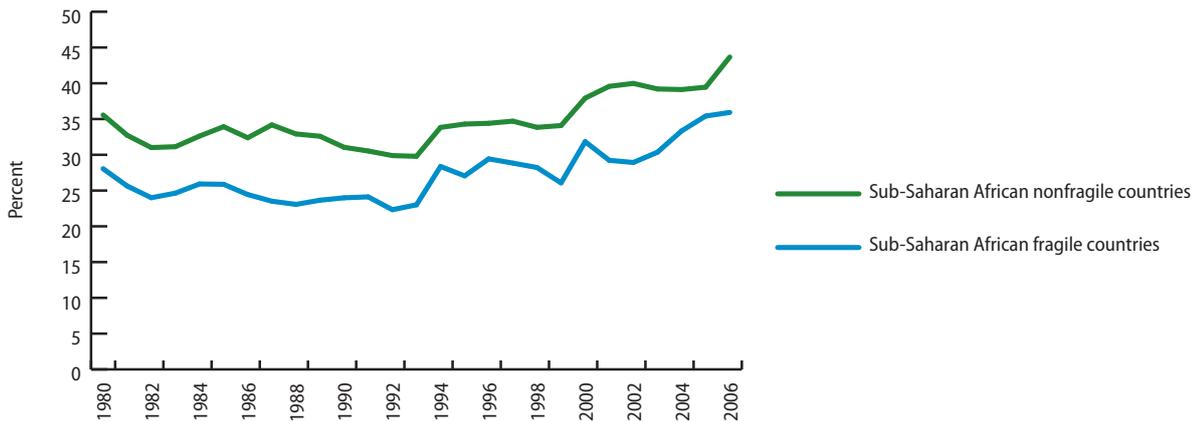
² Berman and Martin 2009.

³ Eichengreen and O'Rourke 2009. The estimated elasticity of world trade to world GDP is around 2. This has supported the globalisation and is likely now to backfire.

⁴ Arbache and Page 2008.

⁵ Fosu and Naudé 2009.

⁶ The ratio of exports to GDP for some countries, particularly for the oil exporters in Central Africa, is probably inflated by the high prices for raw materials.

Figure 6.1: Exports rising as a share of GDP

Source: World Bank (2009c).

2. THREE “F’s” (FOOD, FUEL, FINANCE) AND A FOURTH (FRAGILITY)

Food and fuel price spikes through mid-2008 put food and oil-importing Sub-Saharan African fragile countries under severe stress, pushing down their foreign exchange reserves and making it difficult to pay for imports and sustain growth. Conversely, oil-exporting countries have benefited from increased revenues, and several have been able to strengthen their foreign reserve position. However, the boom and bust contributed to output volatility, discouraging investments in long-term productive capacity.

As emphasised by IMF (2009a), most Sub-Saharan African countries have almost consecutively suffered fuel, food and financial shocks. Most recent estimates put real Sub-Saharan Africa GDP growth for 2009 at around 1.5%, down from an estimated 5.5% in October 2008. These numbers would make 2009 the first year in a decade in which most fragile Sub-Saharan African countries recorded negative growth in real GDP per capita, threatening the progress towards the Millennium Development Goals and undermining political stability.⁷ Slower growth does not always threaten to reverse human development, but it produces setbacks, especially through cuts in education and health expenditures, which have serious long-term consequences.

3. THE FOUR CHANNELS OF TRANSMISSION TO FRAGILE COUNTRIES

Given the low financial development in the region and fragile countries’ limited links to the global financial system, the main channels of transmission for the crisis are in the real sectors of the economy. Most Sub-Saharan African fragile countries have small domestic banking systems and thin to nonexistent equity markets. Moreover, foreign investors and sovereign wealth funds invest in just a few oil-exporting countries.

Sub-Saharan African countries are exposed to the crisis mainly through trade: the reduction in export earnings is accompanied by an adverse terms of trade effect reinforced by the excessive dependence on commodity exports of fragile Sub-Saharan African countries and the polarisation of their exports.⁸ These countries are also exposed through lower migrant remittances, lower inflows of foreign direct investment (FDI) and possibly lower inflows of foreign aid.

The direct financial channels of transmission have been at work only in such countries as Kenya and Nigeria (and two important nonfragile countries, Ghana and South Africa), which have deeper and more integrated financial markets (box 6.1). Nigeria, for example, suffered stocks market falls similar to, or even greater than, those in developed countries.⁹ Its Nigerian Stock Exchange-20 Index fell by 55% from July 2008 to February 2009, after a fall of 45% the previous year.¹⁰ This decline and the corresponding lack of

⁷ Sub-Saharan Africa has on average a negative rate of growth of real GDP per capita (-0.6%). Fragile Sub-Saharan African countries record a positive 0.2% rate of growth, but this figure masks a high degree of heterogeneity (chapter 2).

⁸ Most fragile countries rely on exports of a single product. On average the three top exports account for around 90% of total exports, as emphasised in chapter 2.

⁹ AfDB 2009a; ODI 2009a.

¹⁰ Kasekende et al. 2009; ODI 2009a.

confidence make it even more difficult to borrow from capital markets. The repercussions of the crisis in some important destination markets for intraregional migrants – such as Nigeria, South Africa, Uganda and Zambia – have strong spillovers to neighbouring fragile countries (especially through a fall in employment opportunities for migrants and a decline in remittances).

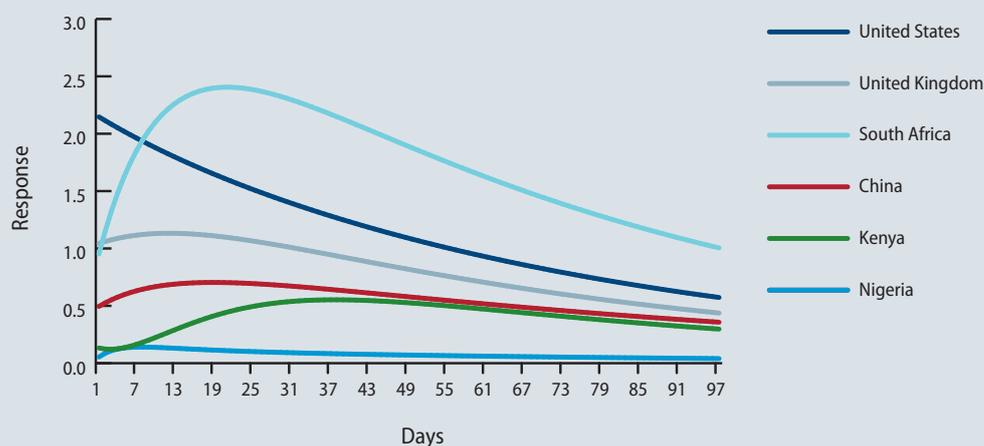
Box 6.1: African financial markets – spillovers of shocks

Since the beginning of the 1990s a number of developing countries have established stock exchanges, partly to satisfy their quest for new capital and partly to incorporate elements of market capitalism in their economies. Sub-Saharan Africa has also participated in this trend, with South Africa rising into the ranks of the leading destinations of emerging markets and with a number of regional funds specifically targeting the continent. At the behest of national governments, and with donor support, Africa has expanded its domestic stock exchanges from 6 in the late 1980s to more than 20 today, though not all are equally developed. Among fragile countries, Kenya and Nigeria have the most developed stock markets.

How did the developments of larger financial markets (China, UK and the US) affect African markets (Kenya, Nigeria and South Africa) over 2004–09? Analysing volatility of different financial markets through an econometric model, Giovannetti and Velucchi (2009) find that, on average, positive shocks in South Africa and negative shocks in China and the UK affect all markets considered. All African markets are influenced by U.S. negative shocks except Kenya, influenced only by positive shocks in the United States. South Africa affects the United States while it is influenced only by the Nigerian market. There is no evidence of a significant relationship between Kenya and Nigeria. China has strong links with African markets. Further results show that also South Africa has a key role in all African markets and that the influence of the UK and United States is weaker. China is independent of the UK and United States.

Box figure 1 graphically represents (impulse-response functions) the volatility shock propagation; on the horizontal axis, we report time (days) and, in the vertical axis, we read the volatility response. When a shock hits market i , the graph shows the responses on all markets; on average, market i response at time 0 will be higher than other markets' response. The figure shows how the collapse of Lehman Brothers propagates to all markets. On September 15, 2008 Lehman Brothers went bankrupt, and international financial markets suffered large losses. China and the UK react strongly to the US shock, while Kenya and Nigeria does not. South Africa is very US sensitive, but the effect is cumulative and the shocks reach the maximum effect after 20 days.

Box figure 1: South Africa responds to the Lehman Brothers collapse – Kenya and Nigeria do not



Note: This box uses a Multiplicative Error Model approach to describe and forecast the interactions and spillover effects among these countries (Engle, Gallo and Velucchi 2008). The model exploits the dynamics of the expected volatility of one market, including interactions with the past squared returns of the other markets; the impulse response function is used to suggest a buildup in the spillover effects.

Source: Giovannetti and Velucchi (2009).

Exporters of minerals and agricultural products have seen declines in revenues which, in turn, have negatively affected government revenues. In Nigeria, for instance, the volatile price of oil, which constitutes around 90% of Nigerian exports (see table 2.3 in chapter 2) and 90% of government revenues,¹¹ created considerable uncertainty, as did the drop in metal prices for the Democratic Republic of Congo. Against this background, the crisis could have a positive impact, by stimulating the redirection of interest to revive the potential of sectors different from oil and fuels (or more generally raw materials), thus strengthening the economies for possible future shocks.

3.1 FEWER RESOURCES FOR FOREIGN DIRECT INVESTMENT

FDI has been an important source of resources for some (few) Sub-Saharan African fragile countries and a powerful engine of growth, depending on which sectors it was targeted. Investments in to the oil industry generate little domestic employment, given the small number of employees and high skills required, while those in tourism or some traditional manufacturing stimulate domestic employment, consumption and growth.¹²

FDI as a share of GDP has been lower in Sub-Saharan Africa than in other developing countries, unevenly distributed across countries and often related to natural resource endowment. FDI had been increasing in absolute terms and as a share of GDP since 2000, but the economic crisis has reduced the total amount of funds or delayed some projects. The crisis tightened credit and lowered profits for firms in developed and emerging economies, leading them to revise their investment plans downward and assume a wait-and-see attitude.¹³ The high and increasing uncertainty linked to the concurrent fuel, food and financial crises explains the general decline in FDI, particularly damaging because of its persistent effects,¹⁴ perhaps even beyond those warranted by a country's fundamentals.

In the first half of 2008 Angola and Nigeria, as well as the Democratic Republic of Congo and Guinea, each received more than \$1 billion in FDI inflows.¹⁵ But in the second half of 2008 and the first half of 2009, a number of investments in natural resources and manufacturing were put on hold or cancelled. The Democratic Republic of Congo and Zambia have had mining projects cancelled, Sudan has had a refinery postponed, and Botswana and Tanzania have had mining projects postponed.

But in one sector FDI has kept increasing: land (chapter 4). Foreign countries, looking for food security or wanting to increase their production of biofuels without jeopardising their water resources, are buying land in Sub-Saharan Africa. Deals may be unfavourable for Sub-Saharan African countries, especially where state institutions are involved, because they are characterized by a weak law enforcement which could be exploited by foreign countries involved in the deals. The effects of these inflows on receiving countries are highly controversial.¹⁶ Short-term money to cushion the worst effects of the crisis can turn out to be a predation of important resources. But if well-managed, it could increase agricultural productivity and even have some positive effects on growth.

3.2 TRADE DECLINES

Many Sub-Saharan African countries, including fragile raw material exporters, have relied heavily on export markets to grow. The crisis has been transmitted to them mainly through declining demand for exports and declining export prices.

It takes time to assess the effects of the crisis on trade flows, but early signals are not reassuring: the demand from China, Europe and the United States for Sub-Saharan African fragile country products has fallen sharply, even more than for products from other areas (figure 6.2). This is due partly to the fact that their exports are mainly raw materials. But even for manufacturers, concentrated on low-technology products, the group suffers more than other developing areas.¹⁷ Moreover, many Sub-Saharan African fragile countries have suffered from increased exchange rate volatility, which induced high uncertainty and high costs for international trade. Many countries in the CFA franc zone have an exchange rate pegged to the euro and have experienced a real exchange rate depreciation. This makes imports from these countries cheaper to an extent, but because fragile states have little capacity to increase exports, they cannot exploit this opportunity.¹⁸

¹¹ ODI 2009a.

¹² See Bonassi et al. 2006.

¹³ Theoretical models of investment under uncertainty (Dixit 1989) have used option theory to explain investors' attitude when the environment is perceived as risky. For the same values of the fundamentals, firms' behaviour is different, depending on the history of the firms: if a firm is already investing in a country, it goes on, but new investments are postponed. Firms' behaviour could explain the current situation: what is a discontinuity in individual behaviour (firms may decide to invest or not to invest in the same situation, depending on their history and multiple equilibria are possible) makes the aggregate investment function highly nonlinear.

¹⁴ It takes time for investments to be realised, and a decline in a year produces a long-lasting impact over the years to come

¹⁵ See UNCTAD 2009, p. 42.

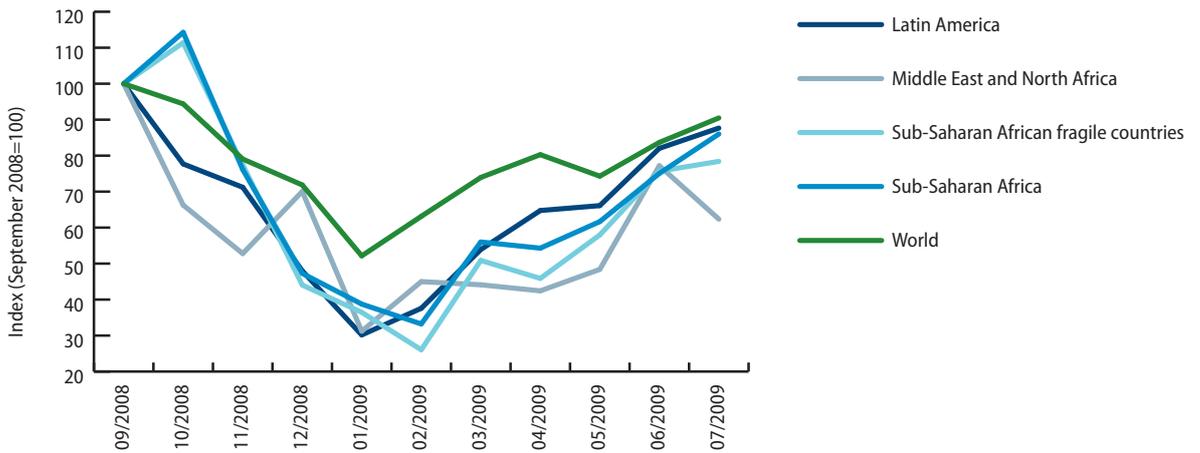
¹⁶ For a discussion of this issue, see chapter 4.

¹⁷ See UNCTAD 2009; this sharper fall in export is true also for Sub-Saharan Africa as a whole.

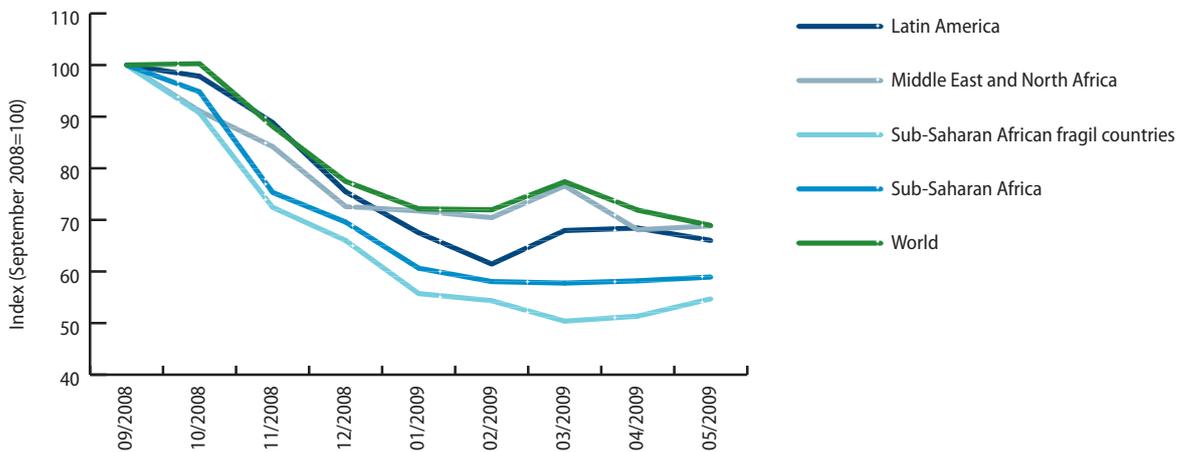
¹⁸ AfDB 2009b.

Figure 6.2: Exports down most for Sub-Saharan Africa

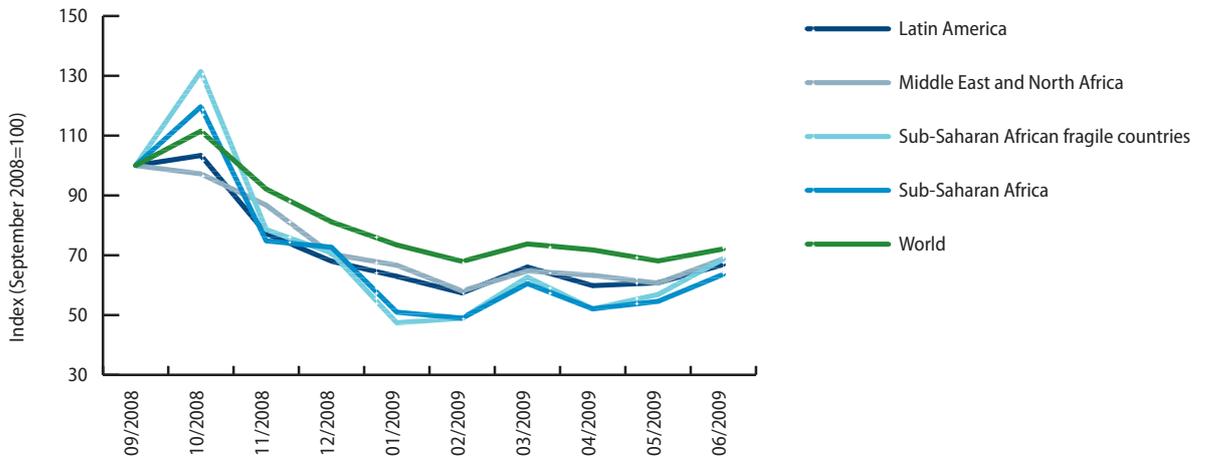
CHINESE IMPORTS



EU IMPORTS



US IMPORTS

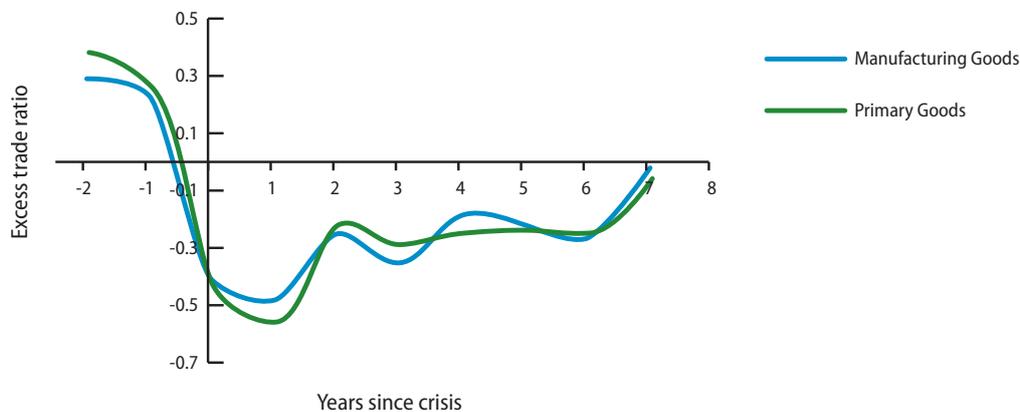


Source: Global Trade Atlas.

The financial crisis is also likely to have reduced the capacity to finance world trade. Sub-Saharan African firms, especially in fragile countries, on trade financing more than others do. Most Sub-Saharan African firms rely on letters of credit from destination countries, mainly because of an underdeveloped domestic financial system and the scarcity of self-financing. These providers, in a situation of high uncertainty and lack of trust, have reduced their risk exposure and credit. Firms and countries that suffer more are those considered more at risk. So, credit rationing, which increases trading costs, has dampened exports of fragile Sub-Saharan African countries.

Analyses¹⁹ based on 117 systemic crises²⁰ and bilateral trade data suggest that exports of Sub-Saharan African countries may be hit hard by the current crisis. First, the impact of past financial crises and recessions on Sub-Saharan African exports has been stronger and more persistent when the trading partner is an industrial country. Second, Sub-Saharan African countries have been hit harder and longer than other regions by crises affecting their destination markets. This is not just a composition effect due to the overrepresentation of primary products in their export baskets, but it is also a consequence of the lower competitiveness of Sub-Saharan African manufacturing exports, which are more concentrated on lower value-added products. Indeed, Sub-Saharan African manufacturing and raw materials exports have both been hit hard (figure 6.3). Also poor infrastructure that increases the costs (duties, red tape, border crossings) add to their vulnerability. On the contrary, to exploit the opportunities offered by an economic crisis, firms have to find niches, develop higher quality products or move up the value chain. But this requires the right human capital, in short supply in fragile countries.

Figure 6.3: Sub-Saharan Africa primary and manufacturing exports after financial crisis in partner country



Note: The figure shows the deviation of Sub-Saharan African exports after a financial crisis that takes place in year $t = 0$, with respect to the average disruption effect. The excess trade ratio in the y-axis represents the deviation of bilateral exports generated by a financial crisis in the partner country, relative to the average deviation: a positive (negative) excess trade ratio means that the effect of a financial crisis in the partner country on African exports is more positive (negative) than the average effect on exports.

Source: Berman and Martin 2009.

3.3 FADING AID FLOWS: A SCENARIO TO BE AVOIDED

The G8 summit at Gleneagles in 2005 pledged to scale up aid to African countries, and this promise has been repeatedly restated and confirmed in international meetings. Still, the global recession induced by the 2008-09 global crisis casts doubts on the actual evolution of aid efforts on the side of Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) donors. Aid budgets may be reduced with respect to the historical high in 2008, to finance fiscal stimulus packages aimed at sustaining internal demand in donor countries. Early signals from some OECD DAC member countries are not reassuring. The Irish government announced a reduction of its aid budget by 22% from what was initially planned for the current year. And Italy could halve its aid budget in 2009, hitting a historical low.²¹ In the short to medium run, most aid budgets of developed countries will be affected because of the recent budget deficits. So spending cuts or high interest rates are likely in the near future.

¹⁹ Berman and Martin (2009) use a gravity model to compute impulse responses; the analysis here is on Sub-Saharan Africa as a whole because of the lack of reliable time series for the group of fragile countries. See their background paper in volume 1B for details.

²⁰ Systemic crisis defined as events possibly lasting several years where much or all bank capital was exhausted. The dataset of bilateral trade and financial crisis is on the period 1972-2002.

²¹ One 2009.

Past crises – which were not as global – reveal that donors tend to cut their aid budgets significantly when facing a major recession. For instance, the Nordic banking crisis in 1991 was followed by a substantial reduction in aid disbursements by Finland, Norway and Sweden.

Even keeping earlier commitments does not shelter recipient countries from a sizeable reduction in aid flows, because commitments are expressed as a share of gross national income, and because of swings in bilateral exchange rates with the dollar.

In order to gain a better understanding of the possible effects of the crisis on aid budget, we draw on the econometric analysis by Bertoli et al. (2007), who model the economic, institutional and political determinants of the aid effort – defined as the aid to GDP ratio – by the 22 members of the OECD DAC over 1970-2004. Here, we extend the analysis up to 2008, and use a modified specification of the model that allows for a non linear relationship between recessions and aid effort. Such a specification reflects the intuition that major recessions could produce a severe – and more than proportional – impact on the aid effort of the donors.²²

Our estimates suggest that countries with a larger budget deficit do not necessarily reduce their aid disbursements, because the primary budget deficit is a poor measure of a country's fiscal stance. This finding, in line with Round and Odedokun (2004), is not reassuring. The analysis shows that aid falls with a larger debt overhang – and it falls more than proportionally in response to a larger output gap, which measures the severity of the recession. The estimates are then used to predict the aid budgets for 2009 for each donor country on the basis of macroeconomic forecasts of the OECD *Economic Outlook*.

According to our predictions, aid flows from OECD DAC countries could fall \$22 billion in 2009, down from \$119 billion in 2008, if donors behave as they did during past recessions.²³ The aggregate variation of total aid flows is radically different from the picture that emerges from the projections made on the basis of public announcements by member countries of the OECD DAC,²⁴ which are in line with earlier commitments. Our predictions represent what the evolution of aid budgets in response to the fluctuations of the business cycles suggests that could happen, but – needless to say – this is just a scenario, which could be avoided provided that most donor countries assign the due priority to aid.

To strengthen the case that this is a scenario to be avoided, we try to get a sense of the size of the impact upon recipient countries in Sub-Saharan Africa, assuming that donors keep their bilateral allocations unchanged from 2003-07,²⁵ gives an idea of the possible effects on individual countries. This back-of-the-envelope exercise shows that most Sub-Saharan African countries are exposed to a reduction in aid flows of between 15% and 20% (map 6.1). This cut may particularly affect countries with a high share of aid in their balance of payments.²⁶ Fluctuations in aid are particularly devastating for fragile countries.²⁷

Map 6.1: Estimated reduction of aid flows to Sub-Saharan Africa in 2009



Source: ERD elaboration.

²² See Bertoli et al. (2007) for a description of the underlying econometric model, and the background paper by Allen and Giovannetti (2009) available in volume 1B for the results of the extended econometric model.

²³ See Allen and Giovannetti (2009) for country-specific projections.

²⁴ OECD, 2009a

²⁵ Bilateral aid data are not yet available for 2008.

²⁶ Chapter 2 provides data on the dependence of fragile countries on official development assistance (ODA), compared with remittances and FDI. According to OECD (2009b), in a different context and with different estimates, Chad, Eritrea and Guinea are expected to face a decline in aid of more than \$20 million.

²⁷ OECD (2009b) maintains that Burundi, the Democratic Republic of Congo, Eritrea, Guinea-Bissau, Liberia and Sierra Leone had aid fluctuations in excess of 5% of GDP during 1990-2005.

Needless to say, European donors should avoid cutting down aid to Sub-Saharan African countries in general, and to fragile countries in particular, as the aid channel would then add to the adverse effects that go through the three channels that we have previously described. Still, the fear that donor countries, which have incurred high domestic costs to cope with the crisis, may reduce their flows cannot be easily dismissed, given the historical experience and some worrying early signals. IMF (2009c) argues that “notwithstanding international commitments to scale up aid, projections do not suggest such scaling-up in the pipeline for 2009”,²⁸ and suggests that low-income countries could suffer from a 25% reduction with respect to the previous year.

China, which has a surplus in its budget (and in its balance of payments), could fill the gap left by OECD countries (box 6.2).

Box 6.2: Is China filling the gap?

The Forum on China-Africa Cooperation, launched in 2000 by China and its African partners (except the three countries that still recognize Taiwan as an autonomous province), is the platform for China to signal its plans for international development assistance to Africa.²⁹ China provides international aid to African countries through economic cooperation, mainly on a project basis, often linked to FDI and trade. By the end of 2006, China had launched around 800 aid projects in Africa: 137 in agriculture, 133 in infrastructure, 19 in schools and 38 in hospitals. China has also sent 16,000 medical personnel to 43 African countries, trained 15,000 people and cancelled African debt for about \$1.2 billion³⁰.

China had disbursed \$5.6 billion in aid to Africa by the end of 2006. China's Exim Bank, one of the country's key actors in development cooperation, announced that it has disbursed \$12.3 billion in loans and export credits to Africa over 1995-2006. The Centre for Chinese Studies³¹ adds that Exim Bank had 259 projects in 39 African countries by September 2006, 80% in infrastructure (dams, railways, oil facilities and mines). Jacoby (2007) includes grants and other credits to the previous figures and estimates \$19 billion in financial assistance from China to Africa by 2006.

The forms of assistance to African countries are grants (mainly in kind), zero interest loans and concessional loans. Recently, China started providing African countries with more debt relief. Chinese officials are said to prefer providing aid in the form of grants in kind because this reduces considerably the transaction costs related to the delivery of aid and increase its effectiveness³².

OECD (2008b) reports that a number of African fragile countries (such as Angola, Cameroon, the Democratic Republic of Congo, Côte d'Ivoire, Eritrea, Liberia, Nigeria, Sudan and Togo) have already received concessional loans from China's Exim Bank. Pehnelt (2007) finds that almost all of China's most important partners in the continent perform poorly on political freedom and the quality of governance, while Alves and Draper (2007) highlight the low scores on Foreign Policy's Failed States Index. Woods (2008) and Brautigam (2008) stress the rising Chinese engagement in “rogue states” such as Sudan and Zimbabwe, though this support goes beyond the sole provision of aid, while Shinn (2008) focuses on the strong military ties of China with these two countries.

Box figure 1 compares DAC aid with Chinese economic cooperation³³ for a group of African fragile countries.³⁴ ODA from DAC countries has been cyclical since 2000, with a downward trend over the latest years. By contrast, flows of Chinese economic cooperation to fragile countries have been growing steady and, in 2006, were almost equal to DAC countries' aid outflows.

The trend is even stronger for some individual African countries, especially where the financial support from western donors has weakened since the mid-1990s (Angola, Equatorial Guinea, Eritrea and Sudan) – when a long series of episodes of violence and general instability spread over the continent³⁵ – and that nowadays receive the bulk of financial assistance from China.



²⁸ IMF 2009c, p. 30.

²⁹ Burkina Faso, The Gambia and São Tomé and Príncipe.

³⁰ MOFCOM 2007.

³¹ CCS 2008.

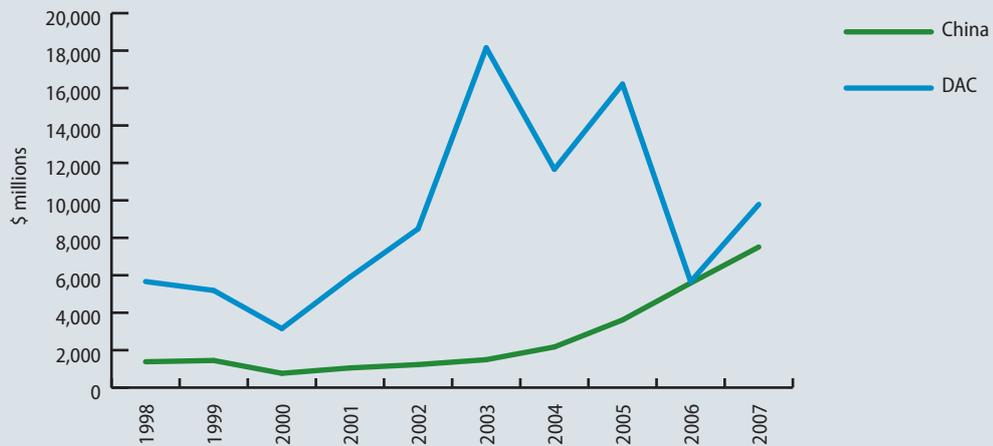
³² Lancaster 2007.

³³ As by the definition provided by the National Bureau of Statistics of China, data on economic cooperation with foreign countries or region cover either projects financed by China's aid programmes and contracted projects undertaken by Chinese contractors. It is therefore important to put a word of caution about the comparison between outflows of Chinese economic cooperation, which, according to OECD (2008a), includes Chinese ODA but certainly overestimates it, and ODA from developed countries, which is a more focused and self-explaining category.

³⁴ Fragile countries have been selected according to the operational definition proposed by OECD (2009b) and adopted in chapter 2 of this report.

³⁵ Tull 2008.

Box figure 1: China's economic cooperation with African fragile countries and DAC aid, 1998-2007



Source: ERD elaboration based on OECD DAC database National Bureau of Statistics of China (various editions), China Statistical Yearbook.

According to some observers, China is going to profit from a possible withdrawal of Western countries from Africa,³⁶ though this will become clearer only after the fourth Forum on China-Africa Cooperation summit in November 2009. At the beginning of 2009, Chinese leaders restated their commitments towards Africa, announcing billions of dollars for new projects and other forms of assistance, including a further reduction of debt.³⁷ Before President Hu Jintao's tour of a group of Eastern African countries in February 2009, Chinese officials pledged that China would maintain its aid to Africa, "regardless of the financial crisis" and that it planned a 200% increase over 2006 in its foreign aid to Africa.³⁸

3.4 REMITTANCES SLOW

Migrant remittances to Sub-Saharan Africa reach countries where other private flows, such as FDI, are limited or nonexistent, sometimes even exceeding ODA.³⁹ And many Sub-Saharan African migrants from fragile countries (as well as refugees) move nearby, because they cannot afford the high cost of migrating to high-income countries (map 6.2).⁴⁰

Map 6.2: Many migrants reside within Sub-Saharan Africa



Source: ERD elaboration based on data from the University of Sussex and the World Bank reported in Ratha and Shaw (2007).

³⁶ Cook and Lam 2009.

³⁷ Brown and Chun 2009.

³⁸ China View 2009.

³⁹ OECD 2008.

⁴⁰ Sander and Maimbo 2005.

Remittances for recipient countries matter not just for their size but also because they tend to be stable or even move countercyclically along the business cycles of recipient countries, thus reducing the likelihood of a balance of payment crisis⁴¹. So, how have remittances to fragile African countries responded to the present downturn?

Different forecasts exist. Ratha and Mohapatra (2009), after initial optimism, predict that remittances to Sub-Saharan Africa will fall 7% in 2009 to \$18-19 billion, down from the \$20 billion officially recorded in 2008 (this excludes informal channels, commonly used by intraregional migrants). IMF (2009b) asserts that a 1 percentage point reduction in the rate of economic growth in migrant-sending countries reduces outgoing remittances by up to 4%. Calí and Dell'Erba (2009) maintain that, compared with Latin America and the Caribbean or East Asia and the Pacific, Sub-Saharan Africa will experience a moderate drop in official flows of around 6-9% in 2009, given that its share of remittances from high-income countries was fairly low in 2008⁴².

Remittances through official channels and from traditional receiving countries are, however, only part of the story, with intraregional migration an important channel of transmission from emerging African countries to fragile Sub-Saharan African countries. A detailed country-specific assessment would require reasonable forecasts about the flows of remittances and the evolution of bilateral exchange rates of the migrants' destination countries against the dollar, because this is the single most relevant factor in shaping the dollar value of the incoming migrants' remittances. But without such forecasts, an assessment is not feasible.

A decline in remittances can affect the composition of expenditure, if remittances are more likely than income from domestic sources to be invested in education and housing.⁴³

Thus, Sub-Saharan African fragile countries will suffer from a steep fall in revenues from trade, due both to a fall in international demand and to deteriorating terms of trade. Furthermore, they are also exposed to a decline in remittances originating from developed and emerging Sub-Saharan African countries, which are the main destinations of migrants from fragile countries, and to shrinking FDI inflows. These adverse effects could also be matched by a decline in aid flows from DAC countries, if these fail to live up to their commitments towards Africa, and they react – as past experiences suggest – to the recession with cut in aid budgets.

4. CAN FRAGILE STATES COPE WITH THE CRISIS?

Fragile countries will suffer from the steep fall in international trade. But they will also suffer from deteriorating terms of trade and shrinking remittances because of higher unemployment in developed countries and in emerging Sub-Saharan African countries, declining FDI and disinvestments and possibly a reduction in aid flows, at least in the short to medium run. To understand how they can cope with the recession or other negative shocks, we propose and apply an overall resilience index.

Resilience is a multifaceted characteristic of a socio-economic system, which is only partly understood, and whose measurement is controversial. Following Naudé (2009), we focus here just on its macroeconomic dimension, which relates to the state's ability to implement adequate policies in reaction to a shock, such as the 2008-09 crisis. Hence, additional dimensions of resilience – at the household or community level – are not considered; their relevance should not be downplayed, but state institutions still represent a pillar of resilience. With this caveat in mind, we build an index of the resilience of each Sub-Saharan African country examining four separate dimensions:⁴⁴

- Macroeconomic management, reflected in balance of payments and fiscal balances and levels of currency reserves.
- Good governance.
- Market efficiency, measured by the Doing Business 2009 indicators.
- Social cohesion, measured by using the ethnolinguistic fractionalisation index and the political instability index.

We then aggregate these four components of the resilience index and rank Sub-Saharan African countries according to their capacity to cope with external shocks, in three main categories: low, medium and high. The subgroup of fragile countries is mainly classified as low resilience (table 6.1).

⁴¹ See Ratha (2006) for evidence on countercyclical movements of remittances and Bugamelli and Paternó (2006) for a discussion of the role of remittances in Balance of Payments crises.

⁴² ODI (2009b) reports that remittances in Kenya, largely from the United States, fell 12% in the first half of 2009, compared with the first half of 2008.

⁴³ Maimbo and Ratha 2005.

⁴⁴ See the background paper by Naudé (2009) in volume 1B with additional details on the index.

Table 6.1: Resilience rank – from low to high

Low		Medium		High	
Congo, Dem. Rep. of	1	Ethiopia	16	Burkina Faso	31
Chad	3	Sierra Leone	17	Togo	32
Burundi	4	Zambia	18	Madagascar	33
Central African Republic	5	Malawi	19	Benin	34
Eritrea	6	São Tomé and Príncipe	20	Tanzania	35
Congo, Rep. of	7	Cameroon	21	Mozambique	36
Guinea-Bissau	8	Mali	22	Lesotho	37
Côte d'Ivoire	9	Uganda	23	Swaziland	38
Guinea	10	Nigeria	24	Seychelles, The	39
Niger	11	Ghana	25	Gabon	40
Kenya	12	Senegal	26	Namibia	41
Liberia	13	Cape Verde	27	South Africa	42
Angola	14	Rwanda	28	Mauritius	43
Comoros	15	Equatorial Guinea	29	Botswana	44
		Gambia, The	30		

Source: Naudé 2009.

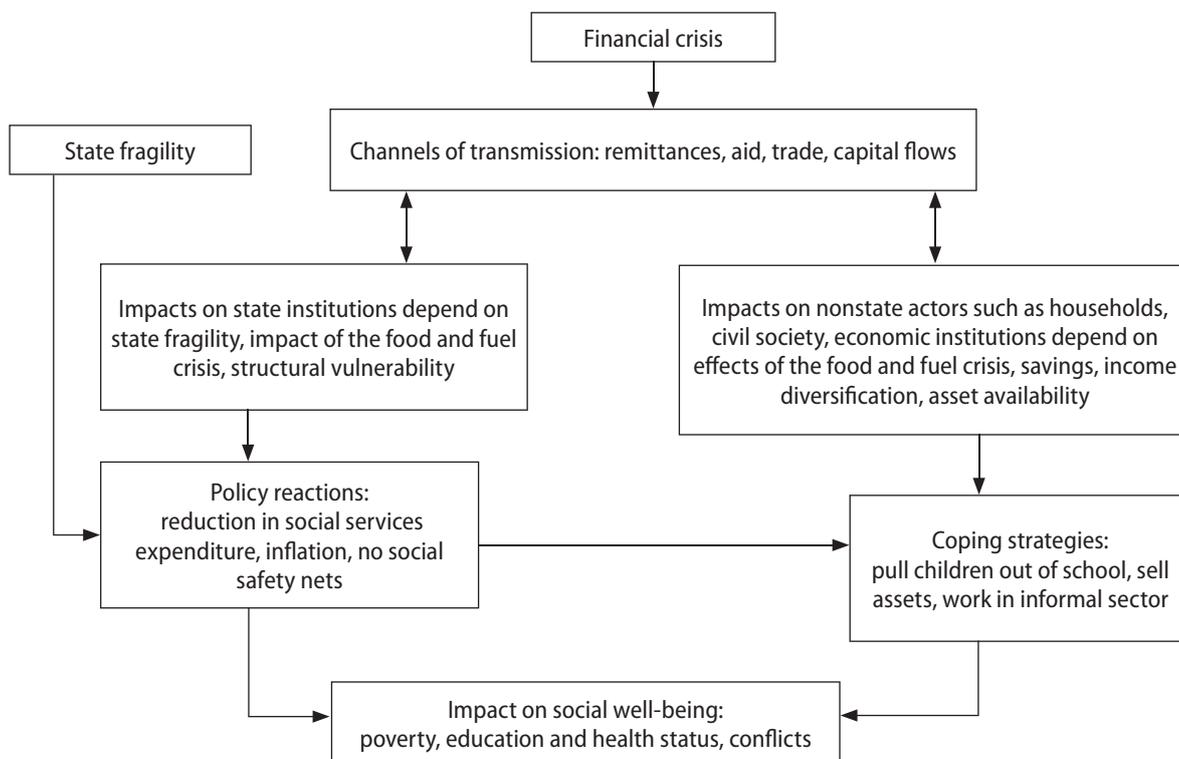
We note that the most fragile countries are in the group of low resilience countries. It is likely in each country that those most affected will be the poorest, those less resilient than average (at a community and household level).

The ability of fragile countries to react to the crisis was impaired not only by fragility itself, but also by the previous food and fuel crises: food- and oil-importing fragile countries suffered from the transmission of the real effects of the 2008-09 crisis when most of them were already in a highly stressed situation, which further added to their limited ability to react to the crisis due to the fragility of their state institutions.

4.1 SEVERE SOCIAL IMPACT OF THE CRISIS

The impact of the 2008-09 crisis in Sub-Saharan Africa varies between and within countries, even though its magnitude is difficult to assess because of the scarcity of data and lag. Figure 6.4 provides a snapshot of the impact of the crisis and of how it is aggravated by the fragility of state institutions. The 2008-09 crisis directly influences state institutions and nonstate actors. The combined effect of the coping strategies of state institutions and nonstate actors determines the impact of the crisis on social well-being.

Figure 6.4: The impact of the crisis on social well-being



According to Chen and Ravallion (2009), the financial crisis together with the spikes of food and fuels prices will increase the number of poor people by 53-64 million in 2009, based on estimates of those living with less than \$2 a day and \$1.25 respectively. Sub-Saharan African countries are expected to lose at least \$50 billion in income in 2009. Infant and child mortality rates are also projected to rise. Friedman and Schady (2009) estimate that the crisis could induce 30,000-50,000 excess infant deaths in Sub-Saharan Africa. The International Food Policy Research Institute projects that the prevalence of undernourishment among children in Sub-Saharan Africa will rise from a fifth in 2005 to a fourth in 2020.

Poor women – heads of households, farmers, factory workers, informal service providers, internally displaced persons and refugees – caught up in wars are the most vulnerable to shocks. Research from United Nations Research Institute for Social Development⁴⁵ points out that women as heads of household increase their workload and have less time to rest and care for the family's health and the sick.

Obiageli Ezekwesili, the World Bank vice president for the Africa Region, said in May 2009 that “the global economic crisis will drastically reduce African women’s individual incomes as well as the budgets they manage on behalf of their households, with particularly damaging consequences for girls [. . .] Poverty has a female face, and the global economic downturn will have a significant impact on women as more of them lose jobs and are forced to manage shrinking household incomes”.⁴⁶ World Bank research already shows household income declines in Uganda and falling income from agriculture in Madagascar, where girls are the first to be pulled out of schools. Ezekwesili also observes that “the crisis in Africa is leaving women with ever fewer job choices. In many export-oriented industries [. . .] it is women, not men, across Africa who are losing jobs because of the crisis. Declining remittances and a tightening of microfinance lending are restricting the funds available to women to run their households.”

⁴⁵ UNRISD 2006.

⁴⁶ World Bank 2009d.

The global collapse in demand led to job losses in many industries. AfDB (2009c) reports that in Sub-Saharan Africa there will be 27 million new poor, 28 million more vulnerable jobs (mainly in mining but also in manufacturing) and 3 million more unemployed following the crisis. Recent assessments indicate high work-hour reductions, which force workers to move to lower productivity activities or to the informal sector, with its high unemployment rate and income insecurity⁴⁷.

The direct impact on households also depends on assets availability, income diversification, savings and local safety nets, such as funeral associations. Price changes affect both net producers and consumers. Lower global demand of commodities pushes prices down, reducing producer incomes. A price fall is good for net consumers, but unfortunately the transmission of the reduction is never complete and takes a long time to reach final consumers.⁴⁸ Food-price inflation is very high and in time will challenge food security and reduce what the poor can spend on nonfood items such as education and health.

The combination of assets and insurance mechanisms shapes coping strategies of the households in fragile countries. Families are likely to sell assets to cope with the crisis, to withdraw children from school, to reduce reliance on health care and to cut food expenditure, shifting to lower quality products with fewer calories. This situation produces a vicious circle that undermines the chances of younger generations to move out of poverty. Indeed, there is a bad chance that children will not go back to school once the crisis is over – or will not recover the learning gaps from their lack of attendance. And the declines in food consumption among children can lead to irreversible effects (box 6.3).⁴⁹

Box 6.3: Adverse shocks and social protection – what role for formal and informal financial institutions?

By Abena D. Oduro, University of Ghana

Objective indicators of risk in Sub-Saharan Africa include the variability of rainfall, the seasonality in crop prices and the proportion of households without access to safe drinking water and safe sanitation. The incidence of self-reported shocks is another indicator of the extent and nature of risk and shocks facing Sub-Saharan African households. In Tanzania, for example, about two-thirds of rural households surveyed in Kilimanjaro and Ruvuma reported shocks that affected their livelihoods during a five-year period.⁵⁰

Households tend to be hit by more than one shock. In Tema, a largely urban district of Ghana, the majority of households reported one or two shocks over a two-year period. This finding contrasts with Builsa, a largely rural district, where more than half the households reported more than four shocks in the two years. The current global crisis and its impact on African economies add an additional layer of risk and uncertainty to communities and households already risk prone.

Adverse shocks have impacts in the short and long term. For example, school enrolment of both boys and girls in Côte d'Ivoire declined after an adverse weather shock. There was an increase in malnutrition among children in areas that experienced the shock.⁵¹

The decline in investments in the education and health of children in the aftermath of a shock can have long-run negative impacts. The decline in consumption means that some households or individuals could become poor or, if already poor, remain poor. In some countries the number of transient poor, who move in or out of poverty, can be substantial.

In responding to an adverse shock households balance consumption reduction and asset depletion. Households use a wide variety of measures to manage risk and respond to adverse shocks. These coping mechanisms depend largely on family (nuclear and extended) and other networks and self-insurance (for example, the sale of assets). There is limited recourse to public social protection and formal credit and insurance instruments.



⁴⁷ World Bank 2009a.

⁴⁸ ODI 2009b.

⁴⁹ World Bank 2009b.

⁵⁰ Sango et al., 2007

⁵¹ Jensen, 2000

The prevalence of informal finance arrangements can be explained by supply and demand. The geographical coverage of banks and other formal financial institutions is limited. Rural and remote communities are poorly served by these institutions. Microfinance programmes have much broader coverage. Formal financial institutions are unlikely to expand coverage in the rural economy until they can adequately address adverse selection and moral hazard. The demand for informal credit and insurance persists because transaction costs for informal loans may be lower than those for formal loans. The cost of defaulting on an informal loan can be lower than for a formal loan. In a high-risk environment this may push demand for credit and insurance towards the informal sector. Some examples of informal financial institutions are funeral associations and revolving savings and credit associations, which are not designed to provide insurance against adverse shocks.

Empirical evidence suggests that households cannot fully insure against risk. Risk-sharing arrangements are more likely to provide insurance against idiosyncratic shocks than against covariate shocks. For example, funeral associations normally provide insurance against idiosyncratic shocks. But the poor are more likely to be left out of these arrangements.⁵²

The high risk in African economies and the evidence that households cannot protect consumption when they are hit by adverse shocks suggest that there must be a large demand for insurance. A study of rural households in Tanzania finds that there is a demand for insurance against price fluctuations and rainfall shocks. The willingness to pay for insurance depends on the availability of cash to pay for the insurance.⁵³

4.2 THE RISK OF POLITICAL INSTABILITY AND RESURGING CONFLICTS

The fragility of state institutions blunts political processes for state capacity and citizen expectations to reach an equilibrium. The global financial and economic crisis further jeopardises the chances that such an equilibrium is maintained in fragile Sub-Saharan African countries. Armed conflict is a possible outcome of the divergence between state capacity and citizens' expectations. This concern was voiced by Dominique Strauss-Kahn, the managing director of the International Monetary Fund, who argued that for low-income countries "we don't just care about growth for growth's sake, we also want to safeguard peace and prevent war. Indeed, when low-income countries were doing well over the past decade or so, the incidence of war declined significantly. The great fear is that this trend could be reversed".⁵⁴

Miguel et al. (2004) analysed the determinants of a civil war in 41 African countries, showing that a 5% reduction in the rate of economic growth increases by half the risk of a conflict. Brückner and Ciccone (2007) find that a crash in the price of an export commodity increases the likelihood of an armed conflict. And Ciccone (2008) shows that a drought-induced fall in incomes produces a similar effect.

Such a tragic outcome of the crisis in Sub-Saharan African fragile countries increases the human and social costs of the global financial and economic crisis. While Sub-Saharan African countries need not suffer more from a higher macroeconomic shock than other countries in the region, the consequences could be much more severe, due to their limited capacity to implement adequate policy responses to the shocks. That is why protecting fragile countries from the fallout of the crisis should rank high among the donor priorities.

⁵² Harrower and Hoddinot 2005; Hoogeveen 2003; de Weerd 2009; the risk-sharing arrangements may provide partial but not full insurance. Contributions may not be large enough to cover the full cost of the shock. Households are less likely to insure fully against covariate risks (Harrower and Hoddinot, 2005; Hoogeveen 2003). The movement of households in and out of poverty over time suggests the absence of or weakness in risk management mechanisms that can adequately protect households from falling into poverty when there are shocks.

⁵³ Sarris et al. 2007.

⁵⁴ Strauss-Kahn 2009.

CHAPTER 7

STATE-BUILDING AND SOCIAL COHESION

State-building has become a leading priority for the international development community. Today, almost every major donor identifies state-building as one of its key objectives, particularly in fragile states.¹ The growing consensus on the need for far-reaching engagements in fragile countries was matched by the recognition, in a post Washington Consensus era, of the crucial role of state institutions in the development process. As the Commission for Africa emphasised in its 2005 report, institutions are crucial to promote development, and states are a critical hinge in achieving the transformations necessary to achieve and to sustain the Millennium Development Goals. The international community also engages in fragile countries with more short-term objectives, which are pursued taking the institutional context as given. But as asserted by the OECD Principles, “the long-term vision for international engagement in fragile states is to help national reformers to build effective, legitimate and resilient state institutions”.²

The international community should, however, have realistic expectations about the extent to which this domestic process can be influenced. Providing support to strengthen state institutions is not just a technical effort. State-building is a process that requires the creation of a sense of citizenship, and it involves collective values, expectations and perceptions attached to the state by individuals, civil society and communities. Moreover, the formation of responsive, capable and accountable state institutions requires promoting tax collection capacity and mechanisms for bottom-up consultation.

The formation of effective and robust states in Europe took centuries, and this process was deeply rooted in international warfare (chapter 3). There is little ground to support the idea that fragile states can be transformed, in a short time frame, to resemble the Weberian ideal. Indeed, in many African countries fragile states are the result of colonial rules that attempted to forge countries according to the Western model, by imposing rules of territoriality and control. An important challenge to state-building in the continent is the institutionalisation of a sense of common identity and the development of enduring formal structures – without referring to the stylised model of state-building in Europe, which can provide only little guidance to African populations and rulers’ efforts to develop effective and legitimate states.

1. BRINGING THE STATE BACK TO THE LIMELIGHT

Reshaping the formal and informal foundations of the state to build states that are more legitimate and representative and that serve the public good rather than the narrow interests of those in power is at stake here. This is an inherently long-term endeavour. Redrawing the understanding and arrangements that underpin the polity and bind state and society together requires getting to the heart of embedded power structures and fundamentally altering them. This is likely to be extremely difficult and sensitive, especially given that, in a very real sense, the drive behind state-building, especially in postconflict settings, inevitably lies in negotiation and compromise rather than in fundamental transformation.

State-building is an endogenous process, which the international community can support – but not lead. In its simplest formulation, state-building refers to the efforts by national actors (at times with the help of international actors) to establish, reform and strengthen state institutions, where these have seriously been eroded or are missing³. In other words, state-building deals with building the legitimacy and capacity of state institutions to deliver basic services to citizens: security, justice and the rule of law, as well as schools, health, and water and sanitation – all meeting citizens’ expectations.

Experiences of state-building interventions show that both ends of the spectrum of international engagement have limited chances of success: neither a minimal approach that focuses only on peace-keeping nor an overarching attempt at institutional engineering can be effective. A gradual approach based on realistic expectations about what international engagement can achieve tends to be more appropriate. The general criterion for state-building interventions should be to leverage all opportunities on the ground, avoiding ambitious plans of complete refoundation of state institutions and of the social contract. And because state-building is a deeply political process, knowledge of the local context and a bottom-up and incentive-compatible approach are crucial to increasing the chances of success for international engagements.

¹ Fritz and Rocha Menocal 2007.

² OECD/DAC 2007.

³ Caplan 2005.

2. SOCIAL COHESION AND THE INTANGIBLE DIMENSIONS OF STATE-BUILDING

The concept of state-building has evolved considerably in recent years. In the 1990s, the focus was on building and strengthening formal institutions and state capacity. But there has recently been a shift towards recognising that the state cannot be treated in isolation and that state-society relations are central to state-building processes. The core of state-building, especially “responsive” state-building,⁴ has come to be understood as an effective political process for citizens and states to negotiate mutual demands, obligations and expectations⁵. A fragile situation is one where no such effective process is in place. Weakness in state institutions, for instance, also relates to power-selection mechanisms, sometimes distorted by ethnic or religious ties, low or absent control on the state executive, and nonexistent public participation in political decisions. This shift has placed the concept of legitimacy – as both a means to building state capacity and an end in itself – at the centre of the state-building agenda.

So, the focus has shifted from a top-down approach of institutional strengthening (focusing on state actors and national elites) to a bottom-up approach, linking state and society (working through civil society).⁶ Still, too often, the focus is on elites and on central and formal institutions (see box 7.6 later in this chapter), failing to foster a more inclusive political process and dealing only with the national and not the local.⁷ Moreover, the international community has tended to focus on the technical aspects of state-building (such as training programmes for members of the public administration), because these are seen as nonintrusive and apolitical.

If state-building is not only about capacity development of state institutions, but more generally about the negotiation process among citizens, social groups and state, a narrow focus on the technical aspects of institution-building risks neglecting the dynamics of the political process for reconciling state capacity and social expectations. State fragility is indeed a deeply political phenomenon, characterised by the lack of effective political processes that can bring state capacities and social expectations into equilibrium. A focus on the formal aspects alone is therefore unlikely to restore the effectiveness of the political processes that lay at the basis of the social contract. Interventions to build the capacity of state institutions have to be supported and complemented by actions that take into account the roles of perceptions and expectations, of bottom-up consultations and of the degree to which populations feel represented by public institutions.

2.1 TAKING INTO ACCOUNT THE IMPORTANCE OF THE INTANGIBLE DIMENSIONS OF STATE-BUILDING

International engagement in state-building cannot overlook the social and cultural elements that support state institutions. The understanding of governance structures in a country can be profitably improved by analysing how the historical and cultural context shape public perceptions of who the authorities are and which are the existing most influential informal institutions. These intangible dimensions can, for instance, influence political and judicial reforms. The divisions of society along ethnic, religious, racial and spatial dimensions might affect the functioning of the electoral processes. During the process of revising or drafting a constitution, civic education campaigns and deliberation mechanisms that include the population’s view can ensure a consensus and build a sense of trust and attachment towards the constitution. Collective values, beliefs, perceptions and cultural values are also important elements of security reforms (box 7.1).

⁴ Whaites 2008.

⁵ OECD/DAC 2008.

⁶ Pouligny 2009.

⁷ See Kaplan (2009) in volume 1B for a detailed exam of the advantage of involving local actors.

Box 7.1: Why local resilience can improve security

By Béatrice Pouligny, Georgetown University

The social and cultural elements that underpin state institutions and ensure that they function are especially significant in fragile situations. Conventional perspectives need to be broadened to look at the multiplicity and diversity of political institutions (formal and informal) and cultures that can support state resilience and state-building processes.

Taking seriously local perceptions and attitudes towards security issues in fragile contexts

A technical focus on institutional reforms directs assistance at the symptoms of the problem rather than at the causes. Experts tend to reproduce technical solutions and rely on template strategies that fail to integrate a thorough understanding of the local situations and are even less informed by local norms and practices. Yet field experiences have shown that reforms and policies in the security sector are bound to fail if they do not integrate intangible dimensions that define how security issues are perceived and can be addressed in a given context.

For example, one of the most pressing issues on the agenda of many fragile states is the reduction of small arms and light weapons. Most studies have shown the importance of looking not only at the supply side of the issue but also the demand side, examining why individuals or groups want these weapons. Questions such as “Why do people possess and buy small arms? What are the political, economic and social functions of guns, and what ideas (about violence, security, justice, authority, self, gender) inform these?” are the focus. This exploration of motivations for acquiring small arms requires anthropologists, criminologists, psychologists, sociologists and behavioral economists. Such approaches emphasise the fact that from the society’s perspective, disarmament is more than just about putting weapons beyond use and facilitating their collection. It is also about changing attitudes.

The same is true of the sense of safety, a subjective process. Assessments of security problems and needs tend to be highly subjective. Where this is done exclusively through the filter of such donor concepts as human security, there is a risk that the peculiarities of local perceptions of security will be downplayed or ignored. In any given country, different actors may also perceive and define their security problems in different ways. They may be influenced by a wide range of emotionally, socially and culturally traumatic events and losses and by the destruction of social norms and codes of behaviour. That is what most individuals and communities face in fragile situations, often characterised by violence and unpredictability in daily life. In different fragile contexts, such as Eastern Congo (in the Democratic Republic of Congo), a microanalysis of local perceptions of insecurity may also help prevent violence against civilians and protect local populations, an increasing concern for the international community.

Fragility does not mean vacuum: community mechanisms to manage security threats, deliver justice and facilitate reintegration

In many situations, institutions are devastated, dysfunctional or illegitimate – or even all three. The infrastructure is devastated. There is very low human capacity with few, if any, qualified personnel. And the population has a deep mistrust and lack of faith in the state. In such circumstances the impression may well be that the state apparatus and new institutions need to be rebuilt from scratch, in conditions that are sometimes described as “virtual anarchy”. This explains the frequent reference to notions such as a “security vacuum” or “rule of law vacuum”.

Yet experience has shown again and again that no such vacuum exists, even when state structures have collapsed completely. Indeed, most of the security and justice in post-conflict and fragile states is carried out not by the state police and judiciary but by nonstate security and justice organisations. Paying attention to existing mechanisms allows a more accurate understanding of the needs of people, and the obstacles, the possibilities and the resources to (re)build a functioning and supportive state/society relationship. Even in situations described as anarchy, as in Somalia or Eastern Congo Democratic Republic of Congo, a variety of actors have been fulfilling in part the functions that would be expected from the state, even though in a dysfunctional way.

Community efforts to reduce the security threats created by the proliferation of small arms – or to reintegrate ex-combatants and rebuild the trust between them and local communities – emphasise local values and intangible elements of the local cultures to build sustainable institutions. In Mozambique and Northern Uganda, traditional rituals have facilitated the reintegration of former child soldiers. These actions have demonstrated the success of strategies that are deeply rooted in the social and cultural context and that consider the subjective and psychiatric dimensions of reintegration.



- Rituals help transform world views and enable people to make sense of the larger conflict. When world views are crumbling, rituals can create new ways of thinking and dramatically alter the way people see the world. They can also make conflict less destructive by reframing the issues at stake and allowing people to approach problems in new ways.
- These systems (often qualified as “traditional” and “informal”) are also broader forms of governance that go beyond dispute resolution. Their leaders and operators may also be involved in the day-to-day functioning of their village or community. While systems may have been seriously affected and changed by violence, they are likely to remain more intact than formal ones.
- A unique contribution of these systems is fostering social trust and community reintegration, particularly in the aftermath of violence. They are almost invariably based on notions of order and community – the primary issue is the well-being of the community, and not just that of the victim.

But these systems can also have drawbacks and dangers, especially for human rights, gender equality and the rights of juveniles. So, traditional and informal mechanisms must be subject to a detailed and contextualised assessment in relation to limitations that can be observed in a variety of contexts: the erosion and potential distortion of traditional authorities and norms, the risk of abuse of power and domination patterns, the risk of political manipulation; the question of legitimacy and effectiveness of the system and the limited applicability across regions/ethnic groups. These limitations are also generally perceived as better addressed by local civil society actors, who can promote and support adaptation in systems that have been constantly changing and being changed in time.

In sum, for donors and international agencies, and especially for the EU, an absolute priority should be to enhance understanding of how populations respond to their daily security problems where the reach of the state system is weak, or states themselves are the cause of the problems.

2.2 TAKING CIVIL SOCIETY INTO ACCOUNT

State-building efforts are bound to fail if – in strengthening institutional capacities, the legitimacy of the state is not restored. Legitimacy has different sources and changes over time, in ways that make it difficult for external actors to understand it fully. Sometimes, when the state is not legitimate, nonstate institutions retain legitimacy, their social role acknowledged by local people. Too much focus on the state thus risks overlooking important actors outside the boundaries of state institutions.

A way to create trust and increase state legitimacy is to go beyond the idea of a state alone and to think of state-building as a way to intervene at the interface of relationships between state and nonstate actors. While capacity-building of central state institutions is important, it is also crucial to support the capacity of civil society to provide the checks and balances on the state to monitor its actions and hold it accountable for its policies.

The challenge, however, is to avoid undermining the position of the state while avoiding competition between nonstate and state actors – and to be aware that state-building might weaken other sources of authority, thus undermining the process.

2.3 PROMOTING A SENSE OF COLLECTIVE CITIZENSHIP AND SUPPORTING MECHANISMS OF ACCOUNTABILITY

Promoting social cohesion and using formal institutions that encourage inclusiveness are important intangible dimensions of state-building. Measures that both unify disparate people in fragile states at the national level and that take advantage of pockets of cohesion at the substate level should be considered. The more successful African states have leveraged a coherent political geography and appealed to the shared history of their people to create a sense of common identity and purpose.

In Botswana, for instance, social cohesiveness might have ensured that the elite carefully stewarded the country's valuable diamond assets for the benefit of the whole population, avoiding the resource curse that has befallen almost all other similarly endowed African countries.⁸ Those other African states lack Botswana's geographical and historical advantages, while the perpetuation of predatory politics dominated by elites further hinder inclusive processes of state-building.

When state fragility is connected to the manipulation of fragmentation along such lines as ethnicity, geography or natural resources, an effective and enduring way of building unity is to focus on institutionalising co-operation across groups and reducing horizontal inequalities. The consociational government in Burundi, for instance, offers a variety of opportunities to build coalitions and to

⁸ Kaplan 2008.

reduce tensions by lessening or eliminating real or perceived imbalances in groups' representation in cabinets, civil servants, legislatures and militaries. Similarly, supporting reforms to apportion the profits from natural resources fairly and transparently – and to improve equity in the distribution of social spending – would dispel some of the potential for friction in divided polities. International actors might also provide an important contribution to assist and finance systems to monitor the allocation and management of public revenues and expenditures.

Celebrating each group's distinctiveness when attempting to build a "nation of nations" is more likely to succeed than trying to build a state on the "negation of social identities" – that is, a "nation against identities".⁹ Promoting strong "we" feelings through various educational, sports and cultural programmes can foster complementary cultural identities that strengthen national bonds, diminishing intergroup frictions in the process. South Africa, for instance, has creatively used sports since the end of the apartheid era to unite the rainbow nation. Programmes to reconcile long-festered intergroup wounds, such as South Africa's Truth and Reconciliation Commission and reconciliation programmes in Burundi, have proved valuable in many countries.

In other cases, state fragility is less linked to population divisions or their manipulation, while the prevailing obstacles to social stability and the provision of public services are more attributable to a configuration of the state that hides a competition between clans, or that serves the interests of "the class state",¹⁰ a power elite that dominates key roles in the state bureaucracy, political parties and economic positions. The ethnic and cultural homogeneity in Somalia, for instance, has not prevented conflicts among clans¹¹. And in the Democratic Republic of Congo, despite its heterogeneous ethnic composition, the political class consists of 150-200 families who are in all political groupings¹². Even in countries where conflicts are usually interpreted as the result of a manipulation of socioethnic identities, such as in Burundi, these social divides overlap with clan-based, regional and class-based division¹³.

Where state-building is hindered by the self-serving political class and a limited willingness to cooperate, international support to the intangible dimensions of state-building might include the creation of participatory spaces to give voice to civil society groups and advocacy groups that can circulate information and drive sociopolitical transformation. But in line with the OECD/DAC Principle for Good International Engagement in Fragile States "do not harm", external actors should minimise the risk of endangering partners. This approach should be complemented by searching for points of contact within the state institutions.

Reforms should be gradual and incremental, in a way that does not threaten a society's fragile social bonds. The aim should be to create an iterative and self-sustaining process of change that seeps through a system, affecting society and the state on many levels and transforming their relationships over time. Such an approach would root the state more firmly in society and hold elites more accountable to their populations. Democracy is far more likely to take hold where it is introduced steadily and advances on many fronts; hasty efforts to introduce elections on tight schedules, even when generously funded by the international community (as in the Democratic Republic of Congo in 2008), are more likely to tear a fragile society apart to dramatically improve governance, especially in the short term.

3. THE NEED FOR A DEEPLY ROOTED UNDERSTANDING OF THE LOCAL CONTEXT

States need to look inward for their resources and institutional models and adopt political and economic structures and processes that reflect the history, complexity and particularity of their people and environment. Too many postcolonial regimes have looked outward for their governance models and resources, in the process becoming dependent on foreign aid and effectively guaranteeing that their domestic roots will always be too shallow to support them.

This does not mean that conventional western political models have no relevance to nonwestern societies – it means that those models need to be adapted to accommodate local political, economic and societal customs and conditions. The goal should not be centralised states with western-style laws and a democracy defined solely by regular elections. Instead, it should be the promotion of capable, inclusive, participatory, responsive and accountable governments. Botswana, for example, roots its political systems in a traditional paradigm that takes advantage of widely accepted norms of governance.

It is very important to emphasise seeking locally appropriate solutions for problems of governance, land and resource management, and knowledge transfer, if the aim is legitimate and accountable states. Certainly, no society that has successfully developed has depended as heavily on foreign resources, foreign political models, foreign languages and foreign laws as fragile states typically do today.¹⁴

⁹ Cahen 2005.

¹⁰ Keller 1991.

¹¹ Mengisteab and Daddieh 1999.

¹² GTZ 2008.

¹³ Brachet and Wolpe 2005.

¹⁴ Kaplan 2009.

Donors should invest more in understanding local societies and diagnosing the political challenges they face. Globalisation patterns have most likely changed traditional structures in fragile countries, which cannot be considered the same as in the past. The evolution of state and nonstate institutions is constant and nonlinear, posing additional challenges to those who want to relate to them. Building local capacity to research the “human geography” of states and analyse sociocultural contexts is crucial – as has already been recognised by some donors.¹⁵

Aid agencies should devote greater effort and resources to better understanding and diagnosing the sociocultural and institutional fault lines that plague fragile states (box 7.2). Commissioning more extensive social science and policy research would be relatively inexpensive and would pay rich dividends in developing international and local policies carefully tailored to address the inevitably complex problems in fragile states. Diagnosing the social and political settings is indeed necessary to understand what is required and to identify entry points and spaces for interacting with state institutions. A valuable contribution to EU capacity to define fine-tuning modalities of interventions can come from a management and screening process of the EU personnel involved in fragile states based on periodic assessments, mechanisms that encourage dialogue between specialists in different fields (in humanitarian assistance, in development cooperation, foreign policy, diplomacy) and specialisation in specific regions, countries or sectors.

Box 7.2: Somalia and Somaliland

By Seth Kaplan, Alpha International Consulting, Ltd.

Somalia and its secessionist territory of Somaliland offer one of the best contrasts between state-building using imported institutional pillars and state-building using indigenous ones.

The international community has tried no fewer than 15 times since the dissolution of the Somali state in 1991 to rebuild it in a top-down fashion – and 15 times it has failed. Isolated from political realities within the country, aid agencies, embassies and multilateral organisations have repeatedly misread the country’s political dynamics and forced upon it “unimaginative, nonstrategic, template-driven policy responses with little relevance to the Somali context and little input from Somali voices.” As a result, “Somalis seeking to extricate their country from this deadly and protracted crisis have to do so in spite of, not because of, involvement by the international community”.¹⁶

In contrast, Somaliland, an area in the northwest of Somalia that declared independence in 1991, has built its state institutions adopting a bottom-up approach that takes advantage of long-standing and widely accepted clan structures. Today, it is the most democratic state in the region and has established enough stability and prosperity to attract migrants from around the Horn of Africa. Somaliland owes its success in part to the fact that it has had little outside help, forcing it to depend on its own resources, capacities and institutions. (Some advocates of Somaliland independence actually fear that greater foreign aid would have a negative impact.) Several other parts of Somalia, such as Puntland, have also established their own local administrations around clan structures. Yet the international community refuses to recognise Somaliland and persists in its Sisyphean efforts to forge a centralised Somali state.

What the political scientist Ken Menkhaus has said about Somalia applies to many other failed and fragile states: “These extensive and intensive [informal] mechanisms [of self-government] [...] are virtually invisible to external observers, whose sole preoccupation is often with the one structure that actually provides the least amount of rule of law to Somalis – the central state. . . . For external actors, the conventional wisdom is that a responsive and effective state is an essential prerequisite for development, a proposition enshrined in virtually every World Bank and UN strategy on development. For many Somalis, the state is an instrument of accumulation and domination, enriching and empowering those who control it and exploiting and harassing the rest of the population. These different perceptions of the state often result in external and national actors talking past one another”.¹⁷

A possible means of leveraging local capacities and institutions and improving governance is to focus on building up local governments and tying them as closely as possible to their communities. Local governments are by no means perfect, but devolving government functions to villages, towns and districts of each city can harness the power of face-to-face interaction and encourage more transparent and accountable forms of government. Central governments can ensure a stable currency, promote an extensive market for goods, construct intercity transportation links and set basic banking, legal, health and education standards. But it falls to local or district governments to provide the services that most affect families and small companies day-to-day. Lower governments provide, for example, most education, health and road construction services.

¹⁵ The Dutch Ministry of Development Cooperation is underwriting local organisations doing socially relevant research in 9 countries across the developing world; the Hewlett Foundation is providing long-term support to 24 think tanks in 11 African countries.

¹⁶ Menkhaus 2008, p. 9.

¹⁷ Menkhaus, 2007, p. 87.

This does not mean that supporting decentralisation always translates in more efficient and responsive governments. Indeed, local administrations can be exposed to attempts of power and resource appropriation by local elites and spoilers. Decentralisation is consistent with inclusive state-building only to the extent that it provides intergovernmental checks and balances, raises citizens' voice and associates local governments' responsibilities with an appropriate assignment of decision autonomy and enough human and financial resources.

So, donors should support decentralisation processes based on voice structuring, social embedding and aligned duties and means of local state institutions. This can reduce the risks of elite capture, enhance accountability and contain the role of side-by-side informal institutions and bodies alternative and parallel to state functions. Rwanda provides a successful example of a decentralised governance approach to service delivery able to anchor traditional concepts and institutions to state functioning (box 7.3). The need to find governance mechanisms embedded in the society also implies that the role of local versus national government depends also on the history of the country. A single solution cannot be applied to very different countries.

Box 7.3: An African governance model

By Jesse McConnell, Reform Development Consulting

Two common challenges to good governance in Africa are the often diverse citizenry that the leadership must govern and capacity constraints among civil servants in providing local leadership. Rwanda provides an example of a uniquely African model of governance oriented to service delivery and based on accountability – and able to transcend many of the challenges. Imihigo, a concept that dates back several centuries in Rwandan culture, relates most closely to a performance contract. The concept developed as an idea of a public commitment from prominent military leaders to their king to achieve a specific objective, such as the conquest of an enemy or region. Achieving their set goal would result in access to a prestigious reward and acclaim for the achievement.

This idea has been modernised and institutionalised into the political system. Mayors make public annual commitments to the president to deliver on specific goals laid out in the national development agenda and localised in the district development plans. The modern Imihigo is thus a function of the government's priority of accountability through people-centred service delivery in achieving rapid grass-roots development. The goals are decided through consultation at a local level by mayors with their community members – and broadcast to the entire country, embedding transparency and accountability in the process. The annual national forum is then followed up by quarterly Imihigo meetings at the district, in which mayors present to community members and representatives from national government the progress made and the challenges faced in pursuing their goals.

A prominent reason for the initiative's success is that it elicited better performance by civil servants. This was accomplished through:

- The large public presence at both the annual inception and quarterly presentation of the Imihigos.
- The clarification of goals that the processes instills.
- The greater involvement of communities as beneficiaries and therefore as planners in the process of identifying needs and selecting relevant projects.
- The fact that Imihigos is based in tradition and draws on existing knowledge.

Since its inception, Imihigos has affected every cadre of society, with commitments throughout government departments, schools and even families.

Some fragile states are fractured along identity, cultural and linguistic lines, and their different regions are weakly connected because of poor infrastructure, disadvantageous political geographies and feeble administrative systems. So, locally driven models of development could succeed where state-based models fail, especially if gains are extended over time both horizontally to other localities and vertically to higher government bodies (especially in large countries such as the Democratic Republic of Congo). It would also ensure that local communities were not held hostage to the dysfunctions of a national government. Focusing aid on these "pockets of opportunity" would be more effective in the short term – and would encourage other areas to improve through the competition for funds in the medium term.

Because it might be very difficult, impossible and sometimes not desirable to change the indigenous social structure and institutions, it is important to know more about the conditions under which formal and informal institutions can be better linked¹⁸. Recognising

¹⁸ Jütting 2003.

the need for institutional diversity – even multiplicity (whereby a state recognises, and integrates where possible, different historical traditions) – and for countries to be both practical and flexible in building governments around the capacity and institutions that already exist on the ground would transform the way donors approach state-building.

Local informal institutions can do much in state-building, but it is necessary to avoid placing undue expectations on them and to avoid “romantic visions” of their role.¹⁹ Not all local and informal institutions are well run or better than the state. For instance, local informal institutions can be discriminatory, especially towards women and younger members of a community²⁰.

Country cases in diverse situations of state fragility²¹ (Democratic Republic of Congo, Sierra Leone and Zimbabwe), suggest that the support to alternative and traditional forms of governance should be evaluated in country-specific contexts on the basis of their potential integration with the state body and their capacity to sustain or undermine state legitimacy. Lessons from these case studies also indicate that a pragmatic and flexible attitude can be the best way to put into practice these general criteria for supporting institutional reforms. International engagement can leverage possible windows of opportunity for reforms by identifying and establishing stable relationships with reform-oriented actors among a country’s elites, civil servants, civil society organisations, professional associations and microfinance institutions.

The way to proceed is thus with a gradual approach to state-building, firmly rooted in the local context. The OECD Principles recommend taking context as the starting point to avoid the imposition of externally designed blueprints. For the international community, this can be a riskier venture than a technical engagement – but with more credible chances of success.

4. COMPLEMENTARITY BETWEEN HUMANITARIAN ASSISTANCE AND STATE-BUILDING INTERVENTIONS IN POSTCONFLICT SETTINGS

One of the challenges for international engagements in postconflict transitions is to ensure that the support to civil society actors promotes state-building and the basic needs of the populations without creating parallel structures.

In many postconflict contexts, private actors in civil society are providing social services. Moving too fast from humanitarian assistance towards budget support to the state can leave many of these actors without the resources to continue to ensure these social services while the state is not yet ready to perform that functions. A premature shift towards state-building might imply that the humanitarian needs remain unmet. In Southern Sudan (box 7.4) the humanitarian needs have been greater during the five years of transition than during the conflict. If the state does not yet have the capacity to provide social services, taking away the support from local providers leaves a humanitarian gap. Protecting the humanitarian space thus requires that the support to state-building be complemented by an equally important parallel process of supporting civil society. In other words, state-building cannot be pursued at the expense of humanitarian principles.

This approach is also consistent with the need to enhance state legitimacy. First, a state’s incapacity to assist humanitarian needs can undermine its legitimacy. Second, the support to civil society organisations can help develop responsive and inclusive states. In postconflict transitions, many political settlements are usually negotiated by elites and civil society is kept out and not brought into the discussion. So, engaging in and supporting institutions within civil society would help strengthen legitimacy and build a more durable social contract.

Donor assistance in conflict-affected contexts must also overcome a misleading juxtaposition of different instruments of interventions. EU action can be undermined by the wrong assumption that there is linear progression from a situation of emergency where humanitarian assistance is the leading tool of intervention to situations where there is more stability – and development cooperation can use budget support as the primary aid instrument (box 7.4). Indeed, international engagement should ensure a space where both humanitarian assistance and development cooperation are used at the same time with equal importance. Both instruments can be very valuable and should be used under a common vision, though they might need to be refined. Humanitarian aid linked to one-year disbursement frameworks are inadequate for addressing the drivers of protracted crises and low levels of conflict.

¹⁹ Pouligny 2009.

²⁰ UNECA 2007.

²¹ GTZ 2008.

Box 7.4: International engagement in fragile states: learning from Southern Sudan

By Sara Pantuliano, Overseas Development Institute

After the signing of the Comprehensive Peace Agreement in January 2005, Sudan was included as one of the nine countries in the OECD/DAC's pilot for applying the Principles of Good International Engagement in Fragile States. Building on the 2005 Paris Declaration on Aid Effectiveness and on the 2003 Principles of Good Humanitarian Donorship, the new principles aim to address the complexity and need for coordinated international action in situations encompassing both security, humanitarian and development issues.²² The Sudan pilot, limited to international engagement in Southern Sudan, focused on three main issues: donor coordination mechanisms, international support to state-building and international support to peace-building, with special emphasis on implementing the Comprehensive Peace Agreement.

An array of aid coordination mechanisms have been tested in Sudan, both during and after the peace negotiations. These have included the Joint Assessment Mission process, the Multi-Donor Trust Funds and the Joint Donor Team in Juba. The Joint Assessment Mission was a comprehensive assessment of rehabilitation and transitional recovery needs across eight thematic clusters to be addressed during the first two years of the Comprehensive Peace Agreement Interim Period (2005-11). The assessment, which lasted 15 months and was co-led by the United Nations Development Programme and the United Nations Development Group and the World Bank, saw the very active involvement of senior members of the two main warring parties, the National Congress Party and the Sudan People's Liberation Movement/Army, and a large number of donor countries. The Joint Assessment Mission was seen as providing the framework for supporting stability and offering the peace dividends to buttress the peace agreement.

The assessment, a very costly and ambitious exercise, generated expectations that it would be *the* guiding document, and proposed mechanisms for its implementation.²³ It did play some role in bringing together the warring parties around a common programme for recovery and represented a first serious effort to frame the response to the new context. But it has not served as an effective framework for action. Reservations have been expressed about the lack of clear priorities and sequencing in its operational plan and the validity of the methods used for costing and extrapolating levels of need²⁴ as well as its inadequate security and peace-building focus²⁵. The biggest limitations, however, were the limited ownership of the assessment by national actors and its growing irrelevance in the face of a fast-changing context, as new government and security structures came into being. The Joint Assessment Mission erred in trying to provide a blueprint for international engagement rather than a dynamic framework responsive to changes in context.

The main mechanisms for implementation of the assessment's findings were two Multi-Donor Trust Funds, one for the Government of National Unity and one for the Government of Southern Sudan. These World Bank administered funds were to facilitate coordinated external donor financing to support immediate recovery, consolidate peace, build capacity and accelerate progress towards the Millennium Development Goals through to 2011. In practice, the performance and impact have been deeply disappointing.

The funds have been widely criticised for failing to achieve rapid and visible impact.²⁶ The rate of disbursement has been excruciatingly slow, with most of the projects failing to deliver tangible goods to the public even by the second year of operation.²⁷ Bureaucratic World Bank procedures, staffing problems and protracted negotiations between UN and World Bank teams over implementing arrangements have hindered initial implementation.²⁸ The government's inability to cope with the bureaucratic requirements of the funds has caused serious delays and inefficiencies.

The shortcomings of the funds have led many donors to bypass them, channeling more resources bilaterally or through other pooled funds. The fund's rules and procedures appear more suited to medium-term reconstruction and development than immediate post-conflict recovery. This is not the first time that the instrument has failed to achieve its objectives in a post-conflict context, which begs the question about why crucial lessons are not being learned.²⁹



²² Haslie and Borchgrevink 2007.

²³ Murphy 2007.

²⁴ Murphy 2007.

²⁵ UNDG/World Bank 2006.

²⁶ Scanteam 2007b.

²⁷ Fenton 2008.

²⁸ Pantuliano et al. 2007.

²⁹ Pantuliano et al. 2008.

Another mechanism to enhance donor harmonisation in Southern Sudan has been the establishment by six countries of the Joint Donor Team in Juba. A midterm evaluation concluded that the team performed well in contributing to promoting ownership in Southern Sudan and strengthening donor alignment with government policies. But the Joint Donor Team harmonisation and adherence to the OECD/DAC fragile states principles were much less successful.³⁰ Specifically, the team's partners failed to develop and operate under a common policy framework, with joint development and diplomatic goals and approaches. As a result, they could not contain the increase in bilateral programmes.

The proliferation of projects has continued to make aid coordination in Southern Sudan difficult and has limited the team's ability to contribute to state-building coherently and sustainably.³¹ Technical advice on land policy and the resolution of land disputes has been particularly uncoordinated and often conflicting.³² The Joint Donor Team, like many international organizations in Southern Sudan, has also had difficulty in attracting and retaining appropriately skilled and experienced staff, undermining performance.³³

State-building in Southern Sudan, a key focus of international engagement, is an enormous challenge, as formal government structures have to be created from scratch. Although concerted efforts have been made to build the administrative apparatus of the government of Southern Sudan, these have been largely top down. The emphasis has been on building institutions and central government administrative capacity in Juba, with much less attention to addressing issues of legitimacy and accountability.³⁴ Some progress has been made in establishing regional and state structures, but the provision of basic services is still very limited, and corruption is rampant in many areas.³⁵

The establishment of the government of Southern Sudan has been interpreted by both national and international actors as providing an opportunity for Southern Sudan to graduate from passive acceptance of externally provided humanitarian assistance to the preparation, funding and implementation of nationally led recovery and development programmes. Donors have consequently increased contributions to longer term recovery and development funds and reduced humanitarian funding. This is despite growing humanitarian needs, the government of Southern Sudan's continuing lack of capacity to address them and the poor delivery record of longer term funding mechanisms.

The conventional aid architecture has demonstrated once again that it is ill equipped to cater for situations that span across the binary division between humanitarian and development assistance. As in many postconflict contexts, there is a need to continue direct service delivery in Southern Sudan while simultaneously building government capacity, not least to prevent more serious emergencies such as cholera epidemics or food crises.

Promoting stability is also a central objective for a transition to peace. Strategies and programmes to achieve this objective must be designed in a way that contributes to state-building, keeping the balance between the establishment of national security institutions and the role of external actors such as peacekeeping missions. In Southern Sudan, the United Nations Mission in Sudan (UNMIS), mandated to monitor the implementation of the Comprehensive Peace Agreement, has been an important element of international engagement.

UNMIS has a massive military presence throughout Southern Sudan and the Transitional Areas. But its rigid mandate (often interpreted too narrowly) and internal security guidelines have made it unacceptably risk-averse and ineffective. In many areas its monitoring of actual and potential conflicts has been irregular, and disarmament, demobilisation and reintegration programmes have been delayed or resisted.³⁶ And other security concerns – such as transforming the Sudan People's Liberation Army into a professional army, training a police force and addressing intercommunal violence – have received limited or belated support. Many UNMIS soldiers lack the necessary language to interact with each other, let alone local people. As a result, engagement between the military observers and the communities is patchy at best. UNMIS is seen to do little in relation to its massive resources. Indeed, international spending on UNMIS presents a striking contrast to the low level of aid delivery visible throughout Southern Sudan.³⁷



³⁰ Bennet et al. 2009.

³¹ Bennet et al. 2009.

³² Pantuliano et al. 2008.

³³ Bennet et al. 2009.

³⁴ Haslie and Borchgrevink 2007.

³⁵ Bennet et al. 2009.

³⁶ Vaux et al. 2008.

³⁷ Vaux et al. 2008.

The international community's failure to provide immediate and tangible peace dividends in Southern Sudan and the Three Areas has had a negative impact on peace building.³⁸ Delays and gaps in service provision and growing insecurity in some areas of return have resulted in returnees either congregating in already overcrowded towns and settlements or postponing their return. The confidence of both host communities and returnees in the government of Southern Sudan's capacity to deliver services and other peace dividends has thus been undermined.

The complexity of the situation in Southern Sudan poses challenges to international engagement that are not easy to overcome. While the OECD/DAC principles are a useful starting point, they can be contradictory. Important tradeoffs may be required between, say, state-building and donor coordination objectives and the rapid scaling up of basic services as peace dividends.³⁹ The application of fragile state analysis is only useful, however, if the causes of fragility are well analysed, understood and disaggregated by area or constituency. For example, in Southern Sudan the causes of and responses to fragility in the Three Areas may differ markedly from those in parts of Upper Nile.

Too often international engagement is informed by an erroneous assumption that the transition from war to peace is linear. In reality, signing a peace agreement often changes little on the ground. Transitioning from war to peace is not a technical exercise but a highly political process in which different principles, priorities and approaches need to co-exist and be realised together.⁴⁰ This includes a sophisticated and nuanced analysis of power relations, causes of vulnerability, drivers of conflict and resilience indicators. In dynamic postconflict settings in particular, the political economy of the transition needs to be continuously reviewed and revised to be truly context-specific. Greater efforts should also be made to identify national champions for change and reform and ways to support them. The role of national actors is fundamental because change can take place only through an endogenous process: international engagement can help stimulate stability, but not drive it.

4.1 OPPORTUNITIES IN POSTCONFLICT RECONSTRUCTION

Postconflict settings not only pose significant challenges to national rulers and international assistance, but they can also provide great opportunities to solve long-standing source of exclusion, grievance and inequity. Gender mainstreaming of postconflict transitions, for instance, might mark important progress in the struggle for women's empowerment and against gender discrimination. And, a coherent integration between the criterion of local ownership and a gender-sensitive approach to postconflict reconstruction can be more fruitful than gender-neutral and top-down programmes (box 7.5).

Box 7.5: Learning from local communities: programmes to support female ex-combatants

Actions to strengthen a society's resilience require local communities to be involved in reform processes and public decision-making mechanisms. Local residents have vital survival strategies that can be supported to build new, more resilient institutions. Some inappropriate aid policies are due to aid workers' lack of understanding of local languages and conditions and resultant inability to deal with customary laws, traditional systems and indigenous knowledge. These language, communication and knowledge barriers obstruct participation by poor or marginalised groups in policy decision-making, thus losing out on opportunities for people to participate in the political and economic rebuilding of their institutions.

These problems have been manifested in the groundswell of concern about inappropriate aid policies raised by the large global social movement – the World Social Forum, which includes the vocal African Social Forum and which brings many thousands of civil society movements together.

The contribution of local ownership in design and implementation of development programmes in fragile situations is clearly evident in the contrast between failed and successful international programmes for reintegrating female ex-combatants in Liberia during postconflict transition.



³⁸ Haslie and Borchgrevink 2007.

³⁹ Haslie and Borchgrevink 2007.

⁴⁰ Elhawary, personal communication.

In Liberia, some 22,000 women and 2,740 girls of a total 103,000 ex-combatants had been disarmed and demobilised by 2004.⁴¹ Though the policy was to integrate gender concerns into the policies and procedures of the disarmament process, this did not happen. Women's organisations observed that women were sent home without proper assessment of their reproductive health or sexual and psychological conditions. Their reintegration into their families and communities was very difficult as they suffered the double stigma of having experienced sexual abuse and of having been affiliated with armed forces.

An innovative solution was found by working with local women's organisations and international partners: female ex-combatants were brought into police forces. The first batch of the new Liberia National Police (LNP) completed training in 2005, and by 2009 women made up 12.6% of the force. The LNP established a Women and Child Protection Unit, which collaborates with governmental and nongovernmental bodies, supported by the Gender-Based Violence Inter-Agency Task Force, which coordinates the work of the United Nations and other donors. The Women Peace Huts project established by the Women in Peace Building Network also supports women in the community who visit the Peace Huts as a refuge and to seek assistance in dealing with issues such as rape, land ownership, religious differences and tribalism.⁴²

In fragile contexts, women's relationship to the state is fundamentally different from that of men. It is often mediated through family, community, religious or customary institutions. Women face a larger gap between their formal and substantive citizenship, as well as greater economic, social and cultural barriers in exercising their rights and participating in decision-making. Moreover, in many fragile state contexts, the domestic and personal issues of most concern to women (such as family law, inheritance, land access and security) are delegated to customary institutions or nonstate actors, making women unable to hold the state accountable for rights in these areas. All these factors mean that women face specific barriers in claiming their rights, participating in governance and holding the state to account – in effect acting as full citizens – and that measures to rebuild or reform the state will affect them differently.

Gender roles and relations can determine opportunities and obstacles to state-building. They change considerably during armed conflict, and postconflict reform of political institutions offers an opportunity to increase women's political voice and influence, especially in the new aid effectiveness architecture.

The intensive state-building processes that take place in postconflict and fragile state settings can allow for changes in power relations, state structures and institutions, and the relationship between the state and citizens (box 7.6). In moving out of fragility there are important opportunities for the international community to support national actors in building a more accountable state. There is thus the opportunity to promote women's citizenship within state-building processes in fragile state settings – producing capable, accountable and responsive states and ensuring that long-standing patterns of oppression are not reestablished.

Box 7.6: Postconflict transition: an opportunity for women's empowerment?

An astonishing 56% of women in the lower chamber of parliament in Rwanda in 2009 can be seen in the larger context of two trends: the use of quotas, and the opportunities to address gender inequality in a postconflict situation. The increase number of women in parliament has been faster in Sub-Saharan Africa in the last 40 years than in any other region, primarily through quotas. According to the Inter-Parliamentary Union, postconflict countries have "featured prominently in its top 30 world ranking of women in national parliaments", and these countries have been effective at using quotas and reserved seats to "ensure the presence and participation of women in [their] newly created institutions"⁴³.



⁴¹ Campbell-Nelson 2008.

⁴² UNIFEM 2007.

⁴³ Powley 2003, p. 5.

Rwanda shows how state-building in postconflict situations can address gender inequalities. Powley (2003) reports that this is due to an active and engaged women's civil society movement, the ability of women to work across party and ethnic lines to make changes to the constitution and the technical support of the international community to encourage women to enter parliament through the quota system. Powley points to the importance of sustained campaigning by the umbrella organisation, Pro-Femmes, in advising the government on women's political participation and promoting reconciliation bringing together grass-roots women, NGOs and government officials. In parliament the Forum of Women Parliamentarians also worked on gender equality policy across party lines. Key to the success was the technical and financial assistance and encouragement of such international partners as United States Agency for International Development, DFID, Inter-Parliamentary Union, UNDP, Association of European Parliamentarians for Africa and International Alert. Landmark legislative achievements were revoking laws that prohibited women from inheriting land in 1999 and passing a new gender-sensitive constitution in 2003. Parliamentary elections followed, with women gaining 49% of the seats in the Chamber of Deputies.

Early attention needs to be given to gender equality and to increasing women's perspective and participation in political, social and economic development in fragile and postconflict settings. State reconstruction can shape new social, economic and political dynamics that can break gender stereotypes. Rebuilding fragile states opens the possibilities for commitments to women's rights and the promotion of gender equality to be confirmed in new governance arrangements. The challenge in postconflict situations is to strengthen national governments to ensure coherence between macroeconomic policy and gender equality goals. The intensive state-building processes that take place in postconflict and fragile state settings allow for changes in power relations, state structures and institutions, and the relationship between state and citizens and between citizens themselves. There is potential in these contexts to change discrimination in education and economic security, sociocultural discriminatory practices and laws, sexual violence and harassment and the exclusion of women and youth from decision-making within the security sector.

Castillejo (2008) argues that redrawing the boundaries of authority between the formal state and customary governance systems can provide new citizenship opportunities for women.⁴⁴ Failing to focus on gender can entrench systems that discriminate against women.

The challenge at an operational level is that gender is not given a high priority in postconflict state-building. In many Sub-Saharan African countries, women have little contact with the formal state, and their lives are governed by customary governance systems that seriously limit their rights and opportunities for political participation⁴⁵. This is even more true in fragile states, where the formal state is weak and inaccessible.

There have been, however, changes in women's rights, women's political participation and women's mobilisation in countries such as Liberia and Sierra Leone, examples of how donors can support the strengthening of women's participation in state-building in fragile Sub-Saharan African states.

One problem in promoting and defending women's rights in fragile states is legal pluralism. Many Sub-Saharan African countries have different legal systems based on statutory, religious and customary law. Each legal system has different notions of what women's rights entail, complicating the reform agenda.

The systems are often overlapping, presenting problems of where rights can be claimed. For instance, if one is married under customary law and rights are violated, which legal code is used to adjudicate? Often it is unclear which is the supreme law because some of these systems are not legislated or recognised. And in a system of weak and compromised institutions, this can further erode rights. In addressing ways to improve legal systems and governance institutions, it is important to realise this is where patriarchal social relations and women's literacy and awareness of and access to their rights come into play. To address these complexities and build new governance structures, more resources are required that take gender inequalities into account and put affirmative action into place.

As Castillejo (2008) suggests, it is important that state-building processes fully engage with customary governance structures – which are central to most women's lives – rather than construct a formal state that lies on top of unreformed customary governance structures that continue to determine people's daily lives⁴⁶.

Gender and fragility is a very new area of development policy. Even though development aid frameworks call for gender-sensitive policy, in general, policy responses to fragility do not yet fully take gender into account, even though most of the characteristics of fragility have important gender dimensions (box 7.7).

⁴⁴ Castillejo 2008.

⁴⁵ Castillejo 2008.

⁴⁶ Castillejo 2008.

Box 7.7: Gender-responsive budgeting

Gender-responsive budgeting has emerged as a major policy response to address gender inequalities through new aid modalities. The new aid modalities (sector and budget support) pose particular challenges for tracking gender equality outcomes. Gender-responsive budgeting is one way to achieve this because it requires governments to apply gender analysis to the budgeting process at national and local levels. Gender budgets aim to provide accountability between the poorest citizens and their governments and to deliver rights and democracy to women⁴⁷. Some very useful gender budget analysis has been done in several Sub-Saharan African countries including Mozambique, South Africa, Tanzania and Uganda⁴⁸.

Gender budget analysis assists in measuring the differential impact of revenue raising and government spending on men and women and in advocating for changes or shifts in public expenditure to match policy goals⁴⁹. It is not a separate budget for women but rather an analytical tool to address gender-based discrimination that can play an important role in enabling women and other poor citizens to exercise their rights to basic services, economic opportunities and political participation – and to increase government accountability for public service provision.

Gender-responsive budgeting aims to:

- Improve the allocation of resources to women.
- Mainstream gender into macroeconomics and development.
- Strengthen civil society participation in economic policy-making.
- Enhance the links between economic and social policy outcomes.
- Track public expenditure against gender and development policy commitments.
- Contribute to the achievement of the Millennium Development Goals⁵⁰.
- Allow governments to comply with international obligations such as the Beijing Declaration and Platform for Action and the Convention on the Elimination of All Forms of Discrimination Against Women.

Gender-responsive budgeting has enormous potential for advancing gender-equitable resource allocation in fragile states. In order to make aid effective in addressing poverty and inequality, it is essential for donors and national governments to have a greater understanding of the specific challenges women face. Gender-responsive budgeting is particularly important in the context of rebuilding and strengthening state institutions because it provides an important entry point for gender mainstreaming.

⁴⁷ Sharp 2003.

⁴⁸ Claasen 2008.

⁴⁹ Budlender and Hewitt 2002.

⁵⁰ Budlender and Hewitt 2002.

SECTION THREE

OVERCOMING FRAGILITY: THE EU'S ROLE



CHAPTER 8

EU POLICIES TO ADDRESS FRAGILITY IN SUB-SAHARAN AFRICA

Addressing state fragility has been a policy priority for the EU for a long time. To deal with countries in fragile situations, the EU has developed a comprehensive set of policies, which includes a general framework, providing the guidelines and objectives for EU foreign and development policy, and specific policies towards fragility. The high priority conferred to state fragility is also reflected in the European Consensus on Development, adopted in 2005.

Whether this comprehensive set of policy documents translates into adequate instruments effectively addressing the challenges posed by the fragility of state institutions in Sub-Saharan Africa is still open to discussion. The object of this Report is not to evaluate the existing policies in detail, but to highlight the EU's potential and limitations in tackling fragility.

A review of the EU approach to state fragility reveals that progress is needed in several directions. The first and more general direction is narrowing the implementation gap between the theoretical policy framework and the design and implementation of specific interventions on the ground. This challenge is fundamental because the effect of a policy is seen in its implementation. Furthermore such implementation needs to be properly tailored because one-size-fits-all policies do not suit the needs of fragile states.

Next, and more specifically, progress is needed:

- To reach a solid understanding of the local context – to design effective interventions informed by such an understanding.
- To understand how the principle of ownership should be adapted when dealing with countries that have incapacitated or illegitimate state institutions, which can make budget support ineffective.
- To avoid having the breadth of EU policies backfire, which could happen if policy coherence for development is not achieved, and different policies produce indirect adverse effects on fragile states. The horizontal dimension of policy coherence needs to be matched by a better search for vertical coherence,¹ ensuring a better coordination between the EC and EU member states.
- To make EU trade policy more responsive to the specific needs of Sub-Saharan African fragile states and ensure that bilateral agreements do not harm the process of multilateral integration.
- To shift from responsive to preventive interventions – so that countries in fragile situations do not slide further down a spiral that progressively erodes the capacity and legitimacy of their state institutions. Such a shift could require moving towards a regional approach to fragility, because the bad neighbour effects described in previous chapters could jeopardise the chances for tackling fragility country by country.
- To better understand how the security and development nexus can be properly handled.

Narrowing the gap requires reassessing priorities, concentrating efforts, simplifying procedures and, in particular, finding the appropriate organisation or partner to implement the policies. It is an issue not only of implementing policies but also of building trust among recipients and donors and learning from the policy experiences. Furthermore, the EU should take a more constructive approach with the understanding that to fight fragility is in fact to build resilience.

Against this background, this chapter assesses the “state of the art” of EU policies towards fragile countries, developing the directions for changes.²

¹ Carbone 2009.

² See Bakrania and Lucas (2009) for an overview of donors activities in fragile countries in the Horn of Africa, which covers the African Development Bank, the EC, the UNDP, the US, the World Bank and selected individual countries. The study emphasises that donors activities reflect not only their own expertise, but also foreign policy interests.

1. THE EU'S HISTORICAL CONCERN FOR FRAGILE COUNTRIES

As early as 2001 the Belgian Presidency of the European Union made fragile states a priority, while the topic has been a preoccupation of independent EU policy research institutes for longer³. The 2003 European Security Strategy, in the post 9-11 world, recasts fragile states as a security issue⁴. The 2005 European Consensus on Development – adopted by the European Council, the European Parliament and the European Commission – for the first time agreed to a shared EU vision on development and defined state fragility as one of the five key challenges of EU development policy (box 8.1).⁵

Box 8.1: “Addressing state fragility” – Extracts from the European Consensus on Development, 2005⁶

- The EU will improve its response to difficult partnerships and fragile states, where a third of the world's poor live. The EU will strengthen its efforts in conflict prevention work and will support the prevention of state fragility through governance reforms, rule of law, anticorruption measures and the building of viable state institutions in order to help them fulfill a range of basic functions and meet the needs of their citizens. The EU will work through state systems and strategies, where possible, to increase capacity in fragile states. The EU advocates remaining engaged, even in the most difficult situations, to prevent the emergence of failed states.
- In transition situations, the EU will promote links between emergency aid, rehabilitation and long-term development. In a postcrisis situation, development will be guided by integrated transition strategies aiming at rebuilding institutional capacities, essential infrastructure and social services, increasing food security and providing sustainable solutions for refugees, displaced persons and the general security of citizens. EU action will take place in the framework of multilateral efforts including the UN Peace Building Commission and will aim to reestablish the principles of ownership and partnership.
- Some developing countries are particularly vulnerable to natural disasters, climatic change, environmental degradation and external economic shocks. The member states and the EU will support disaster prevention and preparedness in these countries, with a view to increasing their resilience in the face of these challenges.

The European Consensus on Development lays out an EU approach based on governance reforms, rule of law, anticorruption measures and the building of viable state institutions, as well as increasing capacity in fragile states⁷. It also underlines the perceived need within the EU to improve the effectiveness and coherence of its assistance to developing countries. And it advocates remaining engaged, even in the most difficult situations, to prevent the emergence of failed states.

Work by other institutions such as the World Bank and the OECD has been instrumental in focusing the policy thinking and debate on how to work in fragile states⁸. These institutions and individual EU member states, more than the EC and EU collectively, have often led the policy debate. While some EU member states had their own bilateral policies on fragile states, others felt the urgency to develop them and pushed for further policy discussions at the European level⁹.

Under the Portuguese Presidency in 2007, and following an extensive consultation with the member states, civil society players and other EU institutions, the EU defined the analytical and conceptual ground for tackling in a more systematic and strategic way its cooperation with countries and regions in situations of fragility. This led to the adoption, in October 2007, of a Communication of the Commission “Towards an EU response to situations of fragility – engaging in difficult environments for sustainable development, stability and peace”, which was followed by Conclusions of the Council and a resolution by the European Parliament on the same topic in November 2007¹⁰. In parallel, the Council adopted in November 2007 its Conclusions on “Security and Development”¹¹ where it stated that “the nexus between security and development should inform EU strategies and policies in order to contribute to the coherence of EU external action”.

³ Visman 1998.

⁴ Solana 2003.

⁵ This chapter draws on the background paper by Faria and Sherriff 2009 available in volume 1B.

⁶ Extracted from European Parliament Council Commission (2006).

⁷ See paragraph 20 of the European Parliament Council Commission (2006).

⁸ See the OECD International Initiative on Conflict and Fragility (www.oecd.org/dac/incaf) and World Bank (www.worldbank.org/ieg/licus/index.html).

⁹ For instance, DFID has already in place a specific approach to fragility, which includes focusing on state-building as the central objective, using different ways to deliver aid, working more closely with international partners and staying committed for the longer term to get results. DFID, (2009), chapter 4.

¹⁰ Commission of the European Communities 2007; European Parliament 2007; and Council of the European Union 2007.

¹¹ Council of the European Union 2007.

Based on these policy commitments, the Commission and the General Secretariat of the Council will, before the end of 2009, propose an EU Action Plan¹² for situations of fragility and conflict, outlining concrete measures on how to enhance the EU response to fragile situations in four key areas: “Whole of the EU” approach, state-building, making EU assistance more responsive and effective and international strategic partnerships.

1.1 THE EU POLICY FRAMEWORKS TO TACKLE FRAGILITY IN SUB-SAHARAN AFRICA

EU policies towards Sub-Saharan African fragile states are broadly defined along three lines:

- Overarching policy frameworks providing the general guiding principles and objectives for EU foreign and development policy and international engagement in areas that, although not specific to fragile states or to Africa, are generally key in situations of fragility, such as development, security and humanitarian assistance.
- Joint policy frameworks for Africa that, while not specific to fragile states, shape EU action in, and its relations with, Sub-Saharan African states (such as the Cotonou Partnership Agreement¹³ and the Joint Africa-EU Strategy).
- EC- or EU-wide policies and policy guidelines (not necessarily specific to Africa) that are focused on situations of fragility or that cover aspects of EC or EU action particularly relevant to them (such as crisis management missions; security sector reform; disarmament, demobilisation and reintegration; small arms and light weapons; governance; conflict prevention; children and armed conflict; security and development priorities; and policies and the development dimension of the financial and economic crisis).¹⁴

In addition to these specific measures, some other EU policies on trade, migration, research and innovation, fisheries and agricultural impact at least some aspects of fragility and interact with the ad hoc measures. It is therefore crucial to look beyond the traditional development and foreign policy arena to check whether these EU policies are coherent with tackling fragility and building resilience.

Through its leadership on Policy Coherence for Development, the EU has made some progress in recent years, but more needs to be done on understanding the actual impact of EU policy incoherence on fragile states in areas beyond development and foreign policy and, as recognised by the EU, in overcoming diverging interests among member states and pursuing more coherent whole-of-the-Union policies.¹⁵

The new strategic approach to Policy Coherence for Development highlighting the promotion of peace and security for development and contributing to the establishment of the policy framework for the whole-of-the-Union approach to development is going in the right direction.

On top of this, EU members and the European Commission have committed to the 2005 Paris Declaration on aid effectiveness and the 2008 Accra Agenda for Action, whose principles apply equally to fragile situations, although they need to be adapted to environments with little capacity and/or ownership (box 8.2).¹⁶ This aid effectiveness agenda has been translated by the EU into several initiatives such as a common framework for joint multiannual programming, common implementation mechanisms (co-financing, joint donor missions) and a “Code of Conduct on Division of Labour and Complementarity”,¹⁷ so far implemented “very partially”.¹⁸ An operational framework to further promote aid effectiveness and joint approaches at EU level in the areas of division of labour, use of country systems and technical cooperation for capacity development, including in fragile contexts, is currently under elaboration, in view of the fourth High Level Forum on Aid Effectiveness that will be held in Seoul, Republic of Korea, in 2011.

¹² The plan will be based on follow-up activities to both sets of Council Conclusions, separate throughout this process. The work on situations of fragility is based on: action plans, studies and reports from six pilot countries with a member state taking the co-lead together with the EC delegation in four cases: Sierra Leone (co-lead Germany), Burundi (co-lead the Netherlands), Guinea Bissau (co-lead Portugal), Haiti (co-lead France), Timor Leste and Yemen; a support study mapping the actors, instruments and assessment tools in fragile situations; joint work by the COM, the World Bank, AfDB and IMF on a common approach to budget support in fragile situations; and the adoption of flexible procedures in situations of crises and emergency. For the follow-up on security and development nexus, see in particular RELEX/ Studies/ IFS/ Security and Development. Final Report Book 1 and 2 (Project No. 2008/157766). The study examined the security and development nexus in Aceh/ Indonesia, Afghanistan, Central African Republic, Chad, Colombia and South-Africa and was distributed to EU member states in February 2009.

¹³ The Cotonou Partnership Agreement between the European Union and African, Caribbean and Pacific (ACP) states includes all Sub-Saharan African states apart from South Africa.

¹⁴ A complete list of EU/EC policy documents related to fragility can be found in volume 1B.

¹⁵ Commission of the European Communities 2009b.

¹⁶ The Accra Agenda for Action 2008.

¹⁷ Council of the EU 2007.

¹⁸ European Parliament 2009.

Box 8.2: Specific provisions on fragility of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action

PARIS DECLARATION ON AID EFFECTIVENESS

Adapt and apply to differing country situations

- Enhancing the effectiveness of aid is also necessary in challenging and complex situations, such as the tsunami disaster that struck countries of the Indian Ocean rim on 26 December 2004. In such situations, worldwide humanitarian and development assistance must be harmonised within the growth and poverty reduction agendas of partner countries. In fragile states, as we support state-building and delivery of basic services, we will ensure that the principles of harmonisation, alignment and managing for results are adapted to environments of weak governance and capacity. Overall, we will give increased attention to such complex situations as we work toward greater aid effectiveness.

Delivering effective aid in fragile states

- The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state and other country institutions. While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.

Partner countries commit to:

- Make progress towards building institutions and establishing governance structures that deliver effective governance, public safety, security, and equitable access to basic social services for their citizens.
- Engage in dialogue with donors on developing simple planning tools, such as the transitional results matrix, where national development strategies are not yet in place.
- Encourage broad participation of a range of national actors in setting development priorities.

Donors commit to:

- Harmonise their activities. Harmonisation is all the more crucial in the absence of strong government leadership. It should focus on upstream analysis, joint assessments, joint strategies, co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.
- Align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems.
- Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.
- Use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions.

ACCRA AGENDA FOR ACTION

We will adapt aid policies for countries in fragile situations

In the Paris Declaration, we agreed that aid effectiveness principles apply equally to development co-operation in situations of fragility, including countries emerging from conflict, but that these principles need to be adapted to environments of weak ownership or capacity. Since then, Principles for Good International Engagement in Fragile States and Situations have been agreed. To further improve aid effectiveness in these environments, we will take the following actions:

- Donors will conduct joint assessments of governance and capacity and examine the causes of conflict, fragility and insecurity, engaging developing country authorities and other relevant stakeholders to the maximum extent possible.
- At country level, donors and developing countries will work and agree on a set of realistic peace- and state-building objectives that address the root causes of conflict and fragility and help ensure the protection and participation of women. This process will be informed by international dialogue between partners and donors on these objectives as prerequisites for development.
- Donors will provide demand-driven, tailored and co-ordinated capacity-development support for core state functions and for early and sustained recovery. They will work with developing countries to design interim measures that are appropriately sequenced and that lead to sustainable local institutions.



- Donors will work on flexible, rapid and long-term funding modalities, on a pooled basis where appropriate, to i) bridge humanitarian, recovery and longer-term development phases, and ii) support stabilisation, inclusive peace building, and the building of capable, accountable and responsive states. In collaboration with developing countries, donors will foster partnerships with the UN System, international financial institutions and other donors.
- At country level and on a voluntary basis, donors and developing countries will monitor implementation of the Principles for Good International Engagement in Fragile States and Situations, and will share results as part of progress reports on implementing the Paris Declaration.

The EU policy approach to fragility broadly reflects much of what is established as international best practice for fragile states, such as pursuing whole-of-government approaches and implementing the OECD's Policy Commitment and Principles for Good International Engagement in Fragile States and Situations of April 2007 (box 8.3).

Box 8.3: OECD-DAC Principles for Good International Engagement in Fragile States and Situations¹⁹

1. Take context as the starting point.
2. Ensure all activities do no harm.
3. Focus on state-building as the central objective.
4. Prioritise prevention.
5. Recognise the links between political, security and development objectives.
6. Promote non discrimination as a basis for inclusive and stable societies.
7. Align with local priorities in different ways in different contexts.
8. Agree on practical coordination mechanisms between international actors.
9. Act fast . . . but stay engaged long enough to give success a chance.
10. Avoid pockets of exclusion ("aid orphans").

Because an extensive policy framework and range of policy initiatives relevant to state fragility already exists in the EU and at the international level, the issue is not about creating a new framework. Instead it is about overcoming the political, financial and institutional challenges to implementing these policies in practice. Issues in search of operational guidance in fragile states include budgetary support, the link between peace-building and state-building, trade, climate change, decentralisation, regional integration, service provision, and gender and social cohesion. Some of these areas have already been tackled, while for others current EU policy provides only limited practical guidance. Furthermore, it is important that existing EU policy frameworks are sufficiently "field tested" for feasibility, relevance and impact in different fragile contexts.

¹⁹ Extracted from OECD/DAC 2007.

1.2 EU INSTRUMENTS FOR IMPLEMENTING THE POLICY FRAMEWORK

As recognised in the 2003 European Security Strategy and a number of other relevant policy documents, the challenge for the EU is to bring together its different instruments and capabilities in a concerted and coherent effort, not only among EU instruments but also embracing the external activities of the member states. Some instruments already in place are the following.

Guidelines, action plans and specific strategies. As mentioned above, an action plan outlining an EU approach to situations of fragility and conflict is currently under elaboration. The EU has also developed specific action plans²⁰ and strategies on other issues such as the implementation of United Nations Security Council Resolutions 1325 and 1820. UN Resolution 1325 on women, peace and security was the first official UN Security Council document to recognise the impact of armed conflicts on women, to stress the importance of equal and full participation in peace and security and to require that all parties in a conflict respect women's rights (box 8.4). The EU 1325 partnership was induced by the European Peacebuilding Liaison Office Gender, Peace and Security group to provide a forum for policy-makers and to enhance discussion and understanding of the gender perspectives and implementation of the UN 1325 resolution within the EU.

Box 8.4: United Nations Security Council Resolution 1325

United Nations Security Council Resolution 1325, adopted on 31 October 2000, will help in addressing gender inequality in postconflict situations and in more gender-equitable peace-building. Resolution 1325 requires parties in a conflict to respect women's rights and to support their participation in peace negotiations and in postconflict reconstruction²¹. The resolution specifically addresses the disproportionate and unique impact of war on women, and women's special undervalued and underused contributions to conflict resolution and sustainable peace. It urges women's equal and full participation as active agents in peace and security. Peace-building is a continuous process in states moving out of fragility, and gender equity is crucial to encouraging good governance, transparency and accountability.

The African Centre for the Constructive Resolution of Disputes trains men and women in conflict resolution, negotiation and mediation to assist them in presenting their issues, needs and interests at peace tables in Burundi, the Democratic Republic of Congo, Guinea, Kenya, Liberia, Rwanda, Sierra Leone, Somalia, South Africa, Sudan and Uganda.

The Mano River Women's Peace Networks in Guinea, Liberia and Sierra Leone, signatories to the Lomé Peace Accord, were awarded the United Nations Human Rights Prize for their role in peace processes in West African in 2003. Their work points to the challenges to bring women into social, political and economic leadership positions in peace-building and reconstruction and the importance of international conventions and UN resolutions²² in underscoring women's role in maintaining peace and security in their societies²³.

In order to play a stronger role in women's protection and empowerment in postconflict settings, the EU needs to implement more efficient accountability, monitoring and reporting mechanisms and increase the financial and human resources allocated to this field of action²⁴. The role of customary providers of security and justice should also be considered in security sector reform processes because in many fragile states, security services do not reach beyond the capital centre, and people living in the rural areas or suburban slums rely mainly on an informal network of security providers.

²⁰ For example, EU action plans on climate change and development.

²¹ The European Commission, the United Nations Development Fund for Women and the International Training Centre of the International Labour Organization have also forged this partnership to support stronger action on gender equality and women's empowerment in national development processes and in co-operation programmes supported by the EC. The partnership includes a focus on effective implementation of United Nations Security Council Resolution 1325 and focuses on 12 countries, most of which are emerging from conflict.

²² Convention for the Elimination of all Forms of Discrimination Against Women 1979; Beijing Platform for Action 1995; UN Resolution 1265 on Protection of Civilians in Armed Conflict, adopted on 17 September, 1999; UN Resolution 1261 on Children and Armed Conflict adopted on 25 August, 1999; UN Resolution 1296 on Protection of Civilians in Armed Conflict adopted on 19 April, 2000; UN Resolution 1314 on Children and Armed Conflict, adopted on 11 August, 2000; UN Resolution 1325 on Women, Peace and Security adopted on 31 October, 2000; Women 2000: Gender Equality, Development and Peace for the Twenty-first Century, New York, 5-9 June, 2000; and Protocol on the Rights of Women in Africa, Maputo, 11 July, 2003.

²³ EU member states provide examples of good practice, which can be replicated in fragile contexts. The National Plans for Implementation of 1325 National Action Plans are under way in nine European countries (Austria, Denmark, Iceland, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom). National Action Plans are seen as innovative attempts and comprehensive strategies to promote follow-through of international commitments. For a more detailed analysis of National Action Plans, see Sherriff and Barnes (2008).

²⁴ Sherriff and Barnes 2008.

Financial instruments and procedures. With the current financial perspectives 2007-13, the EC has engaged in a reform of its financial instruments for external action, comprising, among others, the Instrument for Stability, the Development Cooperation Instrument (including thematic budget lines such as non state actors and local authorities in development and the European Instrument for Democracy and Human Rights, plus the European Development Fund as the instrument for cooperation with the African, Caribbean and Pacific (ACP) countries outside the EU budget. The Instrument for Stability has €2.1 billion for 2007-13²⁵. The 10th European Development Fund for ACP countries has €22.7 billion for 2008-13. It provides an integrated framework for funding development and security-related activities²⁶.

Box 8.5: The Vulnerability Flex mechanism

To support developing countries coping with the effects of the 2008-09 economic and financial crisis, the EU has adopted several measures in 2009, including an ad-hoc Vulnerability Flex (V-Flex) mechanism²⁷. It is a short-term and demand-driven instrument supporting the most vulnerable ACP countries with poor resilience capacity with a view to enabling them to maintain priority spending, notably in the social sectors, in 2009 and 2010. The mechanism can operate to provide grants in ACP countries where international financial institutions loans are insufficient or where international financial institutions are not operating. Support can be provided either as budget support (preferred modality) or existing projects and programmes (fall back position).

The V-Flex has €500 million for 2009-10. Country eligibility has to be decided case by case according to the criteria set by the Commission.

The Peace Facility for Africa, created in 2003 in response to a request from the African Union, uses the European Development Fund to support African peacekeeping operations. More recently, the European Commission has engaged in a strategic work on budget support in fragile situations, together with several member states, the World Bank, the African Development Bank and the International Monetary Fund, with the aim to develop guidelines and to enhance coordination at the EU and international level. As mentioned above, a common approach paper on this issue should be adopted before the end of 2009. The Commission has also reviewed its procedures to make them more flexible in situations of fragility.

Human resources. Although appropriate human resources to implement these policies remain a problem in European member state capitals, in Brussels and in Sub-Saharan Africa, EC delegations have acquired greater political awareness and sensitivity. EC delegations are still mainly focused on managing assistance projects and programmes, but the political dimension is now more important, with better efforts to use the political dialogue tool more effectively. Some EC delegations have political advisors, and there is a sharper focus on governance matters, long a missing link in EC policies. Yet most EC delegations lack the capacity to look at societal factors that may trigger instability and lack the local presence to gain full understanding of the relevant issues. They also often lack a clear political strategy and mandate supported by all EU actors in the field, and the capacity to implement it. The EU Treaty of Lisbon, if adopted, could provide an opportunity for increasing and supporting this political dimension through a new institutional architecture. But the EC also needs to address procedural constraints that often hamper its capacity to translate policy commitments into activities²⁸.

Crisis management capabilities. The EU has also been developing its capabilities in civilian and military crisis management. In June 2003, in the framework of the European Security and Defence Policy (ESDP), the EU deployed its first military force outside Europe without using the North Atlantic Treaty Organization (NATO) in the Ituri province of the Democratic Republic of Congo. The goal was to stabilise the security situation and to improve the humanitarian conditions in and around the main town of Bunia. Between 2004 and 2006, still in the framework of the ESDP, the EU deployed European police officers to the Democratic Republic of Congo (EUPOL-Kinshasa), an advisory mission for security sector reform as well as the European Forces in the Democratic Republic of Congo mission, a military deployment, in and around Kinshasa and in neighbouring Gabon, assigned to support United Nations Organization Mission to stabilise the situation during the election and to protect civilians. From January 2008 until March 2009 the EU deployed a military force in eastern Chad and in the northeastern part of the Central African Republic to protect civilians in danger, facilitate the delivery of humanitarian aid and protect UN personnel and facilities.

²⁵ For further discussion of this particular instrument, see Gänzle (2009).

²⁶ Provided these are not for offensive military costs, as European Development Fund activities cannot cover these in accordance with the internationally agreed official development assistance definition.

²⁷ Commission of the European Communities 2009.

²⁸ For instance, EC procedures make it difficult for EC delegations to hire local researchers to assist them with some of these context analyses. Koeb (2008) suggests recruitment of skilled staff.

However, the overarching pillar structure and the division of competencies limits links among different EU policies, tools and actors.²⁹ At the nexus between security and development – when military and civilian crisis management operations converge with institution-building, conflict prevention and economic development – serious questions of the demarcation of powers between the pillars arise.³⁰ Within European institutions there is no universal agreement that an integrated Council and Commission office is the best way forward.³¹ An attempt to link the EU's civilian and military capacities is under way with the restructuring of responsibilities within the Council secretariat, which could also affect joint work with the EC.

Table 8.1: European Union institutions and agencies relevant to fragile states

	European Commission ³²	Council of the EU	EU member states
Diplomatic action	<ul style="list-style-type: none"> • DG External Relations • DG Trade • DG Development and Relations with African, Caribbean and Pacific States • EC delegations 	<ul style="list-style-type: none"> • GAERC • High Representative • PSC • PMG • Council Working Groups (COHOM, CODEV, CIVCOM and regional working groups) • EUSR • Council Secretariat 	<ul style="list-style-type: none"> • Foreign ministries • Embassies / missions
Multilateral and bilateral programming	<ul style="list-style-type: none"> • DG Development and Relations with African, Caribbean and Pacific States • DG External Relations • DG ECHO (humanitarian aid) • DG EuropeAid • EC delegations 		<ul style="list-style-type: none"> • Development cooperation ministries / agencies • Operational development agencies • Embassies / missions
Crisis management	<ul style="list-style-type: none"> • DG External Relations 	<ul style="list-style-type: none"> • ESDP Missions 	<ul style="list-style-type: none"> • Contributions to ESDP missions

2. EU POTENTIAL IN FRAGILE SITUATIONS

EU is a crucial political, economic and diplomatic player. The EU is the world's largest trading bloc and collectively the largest international donor. Like other big players in the international arena, it is a major economic power. It can bring diplomatic energy to bear through its Common Foreign and Security Policy with the 27 member states acting together in countries and such international forums as the UN. And it has some advantages over international organisations in tackling fragility: the wide range of its potential actions, the resources that it can mobilise and its status as a political actor. Furthermore, the EU's own history with transition from dictatorship to democracy in some countries and from regulated systems to market systems represents an inestimable experience to be exploited.

EU engages with state and nonstate actors. The EU has the ability to engage with a variety of actors other than governments, including local authorities and nonstate actors and regional organisations, which add different perspectives to the EU's understanding of the local context, feed into the political dialogue with governments and improve the outreach of its policies. But that ability often remains unexploited because of the complexity of EU procedures and the limited capacity of some of the other actors.³³

EU has a long-lasting presence. The EU has, through its member states or through the EC delegations, a long-lasting presence in fragile countries. Even in situations of open violent conflict, when few international actors remain, it often maintains some type of presence and support through the offices or field experts of the EC Humanitarian Office. Indeed, the fact that the EC (through EC Humanitarian Office) was the only donor permanently present in the eastern part of the Democratic Republic of Congo through the

²⁹ Solana 2009.

³⁰ Hoffmeister 2008.

³¹ Vogel 2009.

³² Institutions have different roles within each of these areas, and the European Commission cannot initiate EU-wide diplomatic action.

³³ Particip 2008.

first years of this decade gave it a significant advantage over other donors. And it led to the first ever crisis management mission in Africa (without recourse to NATO assets) in support of the UN Artemis operation in Bunia, northeastern Democratic Republic of Congo, in 2003.

EU can build global partnerships. The EU is not the only economic, political or military power involved or interested in Africa³⁴. The EU's ability to build a genuine trilateral dialogue with Africa and China has proved challenging because few African actors see this trilateral dialogue in their best interest. In some cases, the EU capacities are matched or surpassed by others, but the nonhegemonic nature of the EU, as long as it is perceived as such, could add to the value of EU presence and action. In addition, the EU can act collectively with significantly less political baggage than its individual member states, particularly those with a colonial past in Sub-Saharan Africa. As long as partner countries do not see individual EU member states pursuing their own narrow economic or security interests through the EU, they may be more willing to engage with the EU and to accept it as a power in the UN. It is important, however, to be realistic and not overstate the EU's influence in Africa. Its effective role may be less than thought, partly because the EU is often not a collective entity in partner countries. Nor does it behave as such, with its role or action generally less than the sum of its parts.

But the EU should speak and act with one voice and mind. The EU's added value will remain underused until the EC and EU member states speak and act with one voice (sharing a common understanding and strategy of how to work in these contexts) and have an effective division of labour beyond the aid effectiveness agenda. As previously noted, several initiatives, such as the forthcoming action plan on situations of fragility and conflict, are under way. The issue is how the wide range of policies and instruments, as well as the different EU actors, interrelate to develop and apply a coherent, needs-based and well-informed strategy that can best help these states and societies cope with the causes and effects of fragility and enhance their resilience.

If EU coordination and coherence are very often difficult at a national level within member states administrations, they are even more complex at the EU level – with 27 member states, the EU institutions and the heavy and lengthy decision-making process and cumbersome internal and financial procedures. But the EU can achieve results as a single player, when there is able leadership and strong political will. EU policy in Democratic Republic of Congo in the mid-1990s is often considered an example of unity of purpose and commitments within the EU institutions (including member states) to support country stabilisation. But for this unified result to be more permanent, more stable institutional arrangements are needed. A unified long-term policy cannot be implemented through ad hoc coordination.

3. TOWARDS A BETTER EU RESPONSE TO FRAGILITY

Although progress is visible and policy documents provide more comprehensive political guidance, there is a long path to translating commitments into practice. Financial instruments and procedures have become simpler and more flexible, but they remain complex, cumbersome, lengthy and “nonstate actor unfriendly.” That is true even for humanitarian aid, which has by far the lightest procedures in the EC. The EC and the Council still compete on matters of competence. The creation of a common external action service, if the EU Treaty of Lisbon is ratified, could provide some answers, but the essential work is much deeper³⁵.

Development policies have to link with the Common Foreign and Security Policy (CFSP) and the ESDP missions (civilian and military crisis management) – and vice versa. This is particularly so where cross-cutting issues (human rights, rule of law) and activities (security sector reform and disarmament, demobilisation and reintegration are likely to be as important as traditional areas of EU foreign policy engagement (or even more so). Humanitarian and military actors are also more likely to meet in the field, which poses other challenges related to the perceptions of their distinctive roles, the clarity of their mandates and the adequacy of their means. Nor have links between development, security and environment really been addressed so far, although they are receiving more attention, particularly in Central Africa, including the Great Lakes Region.

The drivers of change are primarily local. Donors and their policies can help, hinder or make no difference at all. But it will be up to the local actors to determine whether and how change occurs. Hence it is important for the EU's roles and activities to root in each specific context (in accord with the OECD-DAC Principles). That presupposes knowledge and understanding of local and regional dynamics – from anthropological, historical, socioeconomic and political perspectives. So, a much more sustained political engagement, rather than a technocratic one, is required.

³⁴ Tadesse 2009.

³⁵ See Koeb (2008) for the implications of the Lisbon Treaty for EU's relations with developing countries. Against the background of the treaty's approval, Gaves and Maxwell (2009) propose different organizational models for restructuring EU development policy.

3.1 BRIDGING THE GAP BETWEEN UNDERSTANDING THE CONTEXT AND AN ADEQUATE POLICY RESPONSE

A renewed effort to understand local dynamics, identify the causes of (potential) conflict and feed well-informed multisourced political, societal, economic and regional analysis into country strategies has characterised recent EU policy actions, especially in situations of fragility³⁶. There is often a shared analysis of the context by the EC and EU member states. And EC country strategies are generally rooted in needs and priorities identified in national strategy documents, increasing the potential for ownership. But the extent to which such analysis is informed by diverse local sources is not always clear. Nor is there deep understanding of local actors (spoilers, drivers of change), their motivations and the evolving societal dynamics. This can be partly explained by the need for EU member states to keep some political room for manoeuvre. Moreover, a shared understanding of the context does not mean that different actors (in the field, in EU capitals, local partners) share a common political and operational strategy.

The EU has had difficulty linking better political economy analysis to strategy and programming. Some think this is because the evidence is often conflicting, or requires political choices that the EU, or its partner, is unwilling or unable to make. For instance, in Kenya, most donors did not react or adapt their strategies until the political violence in 2007, despite warning signs over several years.

3.2 NEED FOR A QUALIFIED PRINCIPLE OF OWNERSHIP

In many fragile states, legitimacy is short-lived, even when the government is elected in a free and fair election process, itself an achievement in such context. Government capacities are generally overwhelmed by the level of needs. Government control is often limited to parts of the country, not extending to the perpetrators of violence (sometimes even within state structures). And national policies are not always existent or well-defined. Yet EU development policies often seem to assume a functioning government as a legitimate interlocutor and partner. So, more creative approaches are required to involve local and regional actors as partners in jointly owning EU initiatives, a considerable challenge to implement.

Recent interventions in Somalia illustrate the EU's capacity and will to find alternative approaches to almost exclusive state-to-state dialogue and relations, and move beyond such a government/state-limited vision of ownership. Even though the EU's strategy may not be the long-term state-building solution, the EU has continued to channel aid, support the provision of basic services through civil society actors and promote local government-civil society partnerships. The EU might draw on this example to revisit and qualify the ownership principle and its relationship with civil society in fragile states.

3.3 POLICY COHERENCE AND COORDINATION

Efforts to achieve greater coherence need to aim at building a common vision and political strategy – across EU institutions and key players in the field – on how to address the main challenges, what the priorities are, how to engage with whom and for what – in the event of unwilling governments and governance challenges. Leadership and compromise are not as straightforward as in other environments. Coordination in the field is still mainly understood as not stepping too much into the other's realm and as building synergies among donor activities. But there appears to be less appetite for an effective division of labour among the donor community in more political areas of development cooperation (such as progress in education seems easier than support to governance).

Above all, thorny political issues still tend to be left aside in any coordination effort in the field, particularly with poor governance and rather strong but unwilling governments, resulting in a lack of clear political strategies to address each fragile situation. This is partly the result of different political cultures and agendas of the EC and the EU member states – and partly the result of interaction between the field and headquarters (Brussels and capitals) suffering from a lack of clarity on the role of the field, both in policy-making and as a political actor. A new and more powerful high representative for foreign affairs and security policy, also a vice president of the European Commission, and a new jointly owned diplomatic service – the European External Action Service, as proposed by the EU Treaty of Lisbon – could bring some positive changes to some of the EU's shortcomings in coherence and coordination. Yet its possible transformative role should not be overestimated.

³⁶ On this issue, see the second paragraph of Commission of the European Communities 2009a.

Box 8.6: The EU's Common Agricultural Policy and food security in fragile African states

by Alan Matthews, Trinity College Dublin

The European Union's Common Agricultural Policy (CAP) has been heavily criticised for its detrimental effects on food security in African countries. The criticisms are directed at the way subsidised EU agricultural products undermine the local markets for domestic producers and compete with African exports in third-country markets – and the way trade barriers make it more difficult for African producers to export to EU markets. Nongovernmental organisations have produced case studies of the damage done to local production due to subsidised EU exports of milk powder, sugar, preserved tomatoes and tomato concentrate, beef, cotton and frozen chicken.³⁷ There are fears that liberalisation requirements of Economic Partnership Agreements could expose vulnerable agricultural sectors to further import competition from EU agribusiness firms.³⁸

The food security impacts of the CAP must be evaluated in the light of significant reforms to the CAP market regimes in recent years. Market access conditions have also radically changed with new agricultural trade arrangements for African countries. The diversity of vulnerable African economies, often highly specialised in a small number of agricultural exports and dependent on food imports to satisfy dietary needs, also needs to be acknowledged. In these countries, EU food supplies will affect food producers and food consumers differently.

EU agricultural trade with Sub-Saharan Africa is highly differentiated. The EU imports mostly cocoa and cocoa products, bananas, coffee, cane sugar, tobacco, cotton and some fruits and vegetables from the region, and exports mainly wheat, flour, food preparations, white sugar, milk powder, malt and frozen chicken. CAP reform has lowered market price support for most basic commodities produced in the EU, while continuing to support farm incomes through largely decoupled direct payments. Thus, intervention prices for cereals, beef, dairy products, sugar and rice have been significantly reduced. Coupled direct payments for tobacco, processed vegetables and, partially, for cotton production have been eliminated. Dependence on export subsidies has been greatly reduced, though export subsidies were reintroduced for pig meat and poultry in 2008 and dairy products in 2009. But the EU has committed to the elimination of export subsidies after 2013. And the EU did not introduce export taxes on cereals during the 2007-08 food crisis as it had done during the previous price spike in 1995-96.

Less progress has been made in reducing border protection for EU agricultural production. Variable import levies were converted into fixed import tariffs and reduced on average by 36% in the Uruguay Round. But agricultural tariffs remain high at around 20% on average, with much higher tariffs on specific commodities such as beef, sugar, bananas and dairy products. There is also evidence of tariff escalation in the EU's tariff structure, with tariffs increasing with the degree of processing.

However, African countries benefit from preferential access to the EU agricultural market. All African least developed countries have duty-free and quota-free access apart from transitional arrangements for sugar which will be phased in by 2015. Duty-free and quota-free access has also been extended to African non-least developed countries that have initialled interim Economic Partnership Agreements with the EU, which give greater market access opportunities, particularly for bananas and, after a transition period, sugar. Rules of origin under Economic Partnership Agreements provide some relaxation and simplification for agricultural and processed agricultural products, enabling African farmers and producers to export to the EU market more easily. Duty-free and quota-free access also avoids the discrimination against value added processing due to tariff escalation. Non-least developed African countries that did not sign Economic Partnership Agreements can use the EU's Generalised System of Preferences scheme, though the tariff preferences on CAP products under this arrangement are very limited.

Paradoxically, CAP reform reduces the value of this preferential market access and erodes the rents African exporters can obtain. Expanded access for sugar has been accompanied by the renunciation of the Sugar Protocol, which guaranteed that African sugar exports to the EU within preassigned quotas would receive the EU guaranteed price. Lower intervention prices and tariff reductions have reduced the profitability of the EU market for African exporters of rice, sugar, bananas, beef and fruits and vegetables.³⁹ Thus, within the World Trade Organization (WTO) Doha Round trade negotiations, African countries have argued for extended time frames for the proposed tariff reductions for products where preferences are important.



³⁷ Paasch 2008; Oxfam 2002.

³⁸ Bertow and Schulteis 2008.

³⁹ Low et al. 2009.

The EU, recognising that CAP reform can cause adjustment difficulties for African countries because of the erosion of preferential access, has made financial aid available to help improve competitiveness and assist diversification. The Accompanying Measures for Sugar Protocol countries, with an indicative budget of €1.28 billion for 2006-13, support adjustment processes in 18 ACP sugar-producing countries. More than €450 million was provided under the Special Framework for Assistance to ACP banana exporters in 1994-2008 to promote adjustment. The EU and member states have also supported the EU-Africa partnership for cotton development since 2004 and have allocated more than €300 million for cotton programmes and projects.

So, there has been considerable progress in making EU agricultural policy more coherent with development goals and the food security objectives of vulnerable African economies.⁴⁰ But countries continue to express fears about the potential adverse effects of EU food exports to Africa in the context of the reciprocal liberalisation required under Economic Partnership Agreements. One of the main goals of CAP reform is to make EU exports of agricultural products more competitive. But the EU has assured countries that the asymmetry of liberalisation built into these agreements can be used either to exclude most tariffs on European agricultural products from liberalisation or make them subject to long transition periods (up to 25 years).

CAP reform will continue, given the lively debate on the nature and justification of decoupled payments in the EU particularly in the post-2013 period and the commitment to reach agreement on further agricultural trade liberalisation in the Doha Round. This will encourage greater imports of basic commodities into the EU while strengthening the competitiveness of the EU's processed food sector. For fragile African economies there will be both threats and opportunities in this process, but these need to be kept in perspective. Despite the high profile of debates on the impact of the CAP on African countries, particularly in Europe, African food security remains primarily a function of domestic agricultural policies and investment in Africa.

3.4 EU TRADE POLICIES TOWARDS FRAGILE STATES

In accordance with the Cotonou Partnership Agreement, the trade policy framework with Sub-Saharan Africa is based on the Economic Partnership Agreements negotiated between the EU and six ACP regions to boost trade and development and reverse the marginalisation of the ACP States. In Cotonou it has also been agreed that Economic Partnership Agreements will be WTO compatible. While there is some scope for exceptions for developing countries and particularly for least developed countries within WTO rules, there is no specific provision for fragile states or fragile situations. The ability and policy space for the EU to adapt or make specific provisions for fragile states in the field of trade is therefore somewhat limited by its existing international commitments (but nevertheless possible).

Some analysts have argued that, "while Economic Partnership Agreements are no immediate remedy to the crisis, they could further add to the difficulties encountered by some African countries, unless some flexibility is introduced in the Economic Partnership Agreement negotiations process and appropriate development support measures are promptly adopted and implemented".⁴¹ EU Aid for Trade measures could offer some scope for adaptation to the specificities of fragile states, or at least to ensure that they have their capacity to trade and resilience enhanced rather than undermined by the commitments in these trade agreements (box 8.7).

⁴⁰ Matthews 2008.

⁴¹ Bilal et al. 2009, p. 1.

Box 8.7: Aid for Trade

The EU is one of the main providers of Aid for Trade, a broad initiative encompassing assistance to promote trade, develop trade policies and build trade-related infrastructure. So, even if not specific to fragile countries, it is relevant for fragile countries, given their structural characteristics.

The 2005 Hong Kong WTO Ministerial Declaration called for more and better aid for trade. It sets in motion a process to help low-income countries overcome structural limitations and weak capacities that undermine their ability to compete and maximise the benefits from trade and investment opportunities. In 2007, the EU Council adopted an EU Aid for Trade Strategy, a joint Community and EU member states initiative. The objectives of this strategy are “to enable developing countries, particularly the least developed countries, to use trade more effectively to promote growth, employment, development and poverty reduction and to achieve their development objectives”.⁴² This strategy includes scaling up specific funding for trade related assistance to €2 billion a year by 2010. It intends to enhance the pro-poor focus, increase EU and member states’ capacity in line with aid effectiveness principles, support the ACP regional integration process and monitor the commitments.

On the EU pledge to commit €2 billion a year to Trade Related Assistance by 2010, new figures indicate that the collective EU pledge was nearly met in 2007. In 2007 the commitments from EU member states and the Community towards trade related assistance amounted to €0.96 and €1.02 billion, respectively. Total EU support in 2007 thus reached €1.98 billion with an increase of 8% from 2006, when total EU trade related assistance was €1.83 billion. With respect to the wider Aid for Trade agenda, total EU support reached €7.17 billion in 2007, and Africa is receiving the largest share of EU Aid for Trade funds – €2.7 billion in 2007 and 44% of the total EU Aid for Trade over 2005-07.⁴³

The rationale behind Aid for Trade – to help developing countries connect to the global marketplace – is important, because addressing behind-the-border issues and infrastructure constraints are long-term goals, essential for poverty reduction. And, in the 2009 downturn, Aid for Trade can have an immediate stimulus effect.

What is lacking in many fragile states is not so much trade in goods, which is mainly informal and diverts much needed state revenue, but the institutions that ensure the implementation of trade policy and agreements. Fragile countries in Sub-Saharan Africa face many internal barriers – lack of knowledge, excessive red tape, inadequate financing, poor infrastructures – making it difficult for them to trade and therefore to fully benefit from aid for trade. This is particularly true for countries in Central Africa, which due to their geographical position, risk becoming “aid for trade orphans” and further marginalised by globalisation.

While other creative measures could be adopted in the trade sphere, overall the EU appears to have limited scope to adapt its trade policy to make it more sensitive to situations of fragility. Some contend, given the impact of the current financial crisis, that “elements of the EPAs clearly need urgent revision” (box 8.8).⁴⁴

Box 8.8: Economic Partnership Agreements

Economic Partnership Agreements (EPAs) are asymmetrical agreements covering not only trade in goods and services but also behind-the-border issues, such as competition, government procurement, intellectual property, and trade facilitation, fostering regional integration and combined with aid. According to the Cotonou Agreement, the objective is to enhance cooperation in all areas relevant to trade and foster sustainable development in the ACP states. EPAs should be development oriented, deepening regional integration, enhancing market access for ACP products in the EU market and increasing cooperation on services and trade-related issues. By improving competitiveness, EPAs should help ACP countries’ integration into the global economy and promote their economic growth.

EPAs initially involved six ACP regional groupings, then seven with the East African Community, with five in Sub-Saharan Africa⁴⁵. In an EPA between the EU and a regional grouping, the latter negotiates as a single bloc, though the agreement is signed bilaterally. The non-LDC ACP countries that do not want to engage in an EPA can access to the EU via the Generalised



⁴² Commission of the European Communities 2007, p. 3.

⁴³ Commission of the European Communities 2009, p. 3.

⁴⁴ Jones 2009, p. 7.

⁴⁵ Stevens and Kennan 2005.

System of Preferences,⁴⁶ which is, however, less favourable. The interim outcomes of the EPA process⁴⁷ have been hotly debated in the economic and policy literature.⁴⁸

Many studies highlight their uncertain outcomes.⁴⁹ For some countries, interim EPAs are unlikely to generate significant gains from trade, because ACP countries can fulfil a significant share of the liberalisation efforts asked in EPAs without considerably undermining their current protection scheme.⁵⁰

From the perspectives of fragility and institution-building, an important issue concerns the potential impact of EPAs on tariff revenues of Sub-Saharan African countries. Given the importance of trade taxes in public revenues for African countries, a reduction of tariff revenues associated with reciprocal trade liberalisation could reduce the capacity to satisfy basic state functions. Estimates of full and immediate liberalisation suggest that the losses could be significant.⁵¹ For instance, West Africa is likely to be the region most affected, with loss estimates for Economic Community of West African States varying from about 30% of tariff revenues to up to 89.5%.⁵² More gradual trade liberalisation is likely to mitigate the losses in tariff revenues, but at the cost of reduced gains from trade openness.

So, without appropriate reform of taxation systems and compensating measures, EPAs may have significant negative consequences on the capacity of some Sub-Saharan African states to raise public resources. This is all the more important because it is well-known that poor countries have difficulties substituting value added taxes for trade taxes.⁵³ A key element in fiscal recovery rates is clearly to improve collection (and possibly include the shadow economy). Revenue losses could be manageable if trade liberalisation is gradual and accompanied by public finance reforms. Still, for fragile states with low capacity or limited political willingness, such reforms may be difficult to implement in the short to medium term. It is therefore important to have explicitly committed external resources to assist and facilitate the adjustment process for these countries.

More importantly, EPAs could be opportunities for African countries to rationalise their web of regional integration agreements and could be used as external commitment mechanisms for weakly institutionalised African states to undertake necessary internal reforms, anchoring themselves to the stronger institutional context of the EU. However there have been concerns about whether EPAs can foster regional integration in Africa and, in particular whether EPAs are building blocks or stumbling blocks. A major difficulty relates to the large Sub-Saharan African country heterogeneity within the different EPA groupings. Countries differ in terms of export structures, classification status (least developed countries versus non-least developed countries), degrees of regional liberalisation commitments and sensitive product lists.⁵⁴ While country heterogeneity is not necessarily an obstacle to regional integration, and can in fact increase its economic benefits, it also creates costs of policy coordination and political bargaining. For instance, the difficulty of harmonising trade rules across and within regional groupings may induce border controls and rules of origins on the movement of EU products within regions to ensure that the exclusion of a product in one country is not undermined by preferences for the same product in a partner country.⁵⁵ It is therefore important to have the same market access offer and the same excluded products for the entire region so as to foster single market possibilities.

⁴⁶ The first Generalized System of Preferences of the European Union was launched in 1971. In February 2001, the Council adopted Regulation (EC) 416/2001, the so-called "EBA Regulation", Everything but Arms, which is a nonreciprocal trade agreement, gives 50 countries – 34 of whom from Sub-Saharan Africa (including 22 fragile countries) – which are officially classified as least developed countries by the United Nations, to the EU for all products, except arms and ammunitions and 41 tariff lines concerning rice and sugar, for which duty-free quotas are established until full liberalization is achieved in September 2009 (rice) and October 2009 (sugar). Source: http://ec.europa.eu/trade/issues/global/gsp/eba/index_en.htm.

⁴⁷ Economic Partnership Agreement negotiations were launched in September 2002, with an initial deadline at 31 December 2007 to achieve conformity with the WTO rules. The negotiations have been extended beyond the initial deadline since they were proceeding slowly. As a consequence, the European Commission issued a communication on 23 October 2007, providing a provisional preferential market access for non-least developed countries from 1 January 2008 to extend the negotiation time towards complete EPAs. Hence, a number of interim agreements (also called "stepping stone EPA") have been concluded during the last part of 2007 between the EU and ACP subregions and individual countries, all containing liberalisation commitments on trade in goods to comply with the WTO compatibility requirement. Source: <http://www.acp-eu-trade.org/index.php?loc=epa/background.php>.

⁴⁸ By the end of 2007, 46 African countries were member of an interim EPA. At the same time, only 18 of them had initialled an interim EPA, eight of them fragile countries: Burundi, Cameroon, Comoros, Côte d'Ivoire, Kenya, Rwanda, Uganda and Zimbabwe (Bilal and Stevens 2009).

⁴⁹ Sindzingre 2008; Delpeuch and Harb 2007.

⁵⁰ Stevens and Kennan 2005 and Delpeuch 2007.

⁵¹ Delpeuch and Harb 2007.

⁵² Busse et al. 2004.

⁵³ Baunsgaard and Keen 2005.

⁵⁴ Stevens et al. 2008.

⁵⁵ Brenton et al. 2008.

3.5 PREVENTIVE POLICIES AND ACTION

The EU latest efforts have focused on the need to better respond to and address crisis and postcrisis situations. But effective and timely work on prevention remains the major weakness. Although political dialogue in the European Consensus on Development is said to have an important preventive dimension, some evidence suggests that is often not used for that purpose.⁵⁶

Beyond political will, the EU faces several institutional and operational constraints, including the limitations of EU instruments, the internal organisational and decision-making processes and the capacity to fully respond to the requirements of upstream preventive policies. The institutional setup, which defines the roles and competences of each EU organ, results in different views and priorities for the various services of the Commission and in an institutional disconnect between the EC and the Council. The European External Action Service could offer more scope for improving this situation and better linking short- and long-term EU policies.

3.6 JOINT POLICY FRAMEWORKS WITH AFRICAN REGIONAL ORGANISATIONS

The EU has invested significant time and resources in developing partnerships with regional organisations in Sub-Saharan Africa and with the African Union. How such partnerships and joint policy frameworks shape EU policies to address fragility is less evident. The Cotonou Partnership Agreement – the main trade, aid and political dialogue vehicle for EU relations with Sub-Saharan African states – does not have a specific article on fragility or fragile states. But it does cover relevant actions from political dialogue to democratic governance and from human rights and trade to conflict prevention and peace-building through to punitive measures. Likewise, the Joint Africa-EU Strategy, signed by the heads of state during the Lisbon summit in 2007, did not explicitly refer to state fragility, a term widely rejected by African stakeholders in the run-up to the negotiations. The African Union and its member states seem nevertheless to accept the importance of addressing state fragility and moving beyond the label issue, which could open new opportunities for concerted approaches to address fragility.

The EU already has an enhanced dialogue and partnership on peace and security with the African Union and is a major backer of African Peace and Security Architecture, which includes mediation, early warning and peacekeeping missions – and links the African Union level to regional mechanisms. The Joint Africa-EU Strategy and its action plan provide opportunities to address fragility-related issues of governance, human rights, trade, regional integration and infrastructure. In practice, however, it had limited impact so far at the country level, and its implementation is dogged by how it should be financed and by a discussion on its real added value.

On the potentially more contentious issues, such as democratic governance and human rights, genuine dialogue and respect for the pace of African processes has been hard to discern. Most regional organisations have no interest in being “instrumentalised” to the EU policy agenda and see the furtherance of their own priorities as more important. Yet the quality of the dialogue in some areas within the Cotonou framework and the Joint Africa-EU Strategy has improved, as has EU alignment to African priorities (such as peace and security). The Joint Africa-EU Strategy has helped the EU align with the African Union on international contact groups for the ongoing crisis situations in Guinea, Guinea-Bissau, Madagascar, Mauritania and Somalia. And the EU’s work to speak with one voice with the African Union and its regional economic communities has been a significant step forward.

A regional resilience-enhancing perspective emphasises regional links and the possibility of regional clusters of fragility. And taking a more global view of these issues highlights external drivers at the national and regional levels. Consistent with this perspective the Joint Africa-EU Strategy could foster a new comprehensive regional approach to Africa. Today, this strategy defines a broad framework for regional integration in Africa along political, economic and social lines. The first Action Plan (2008-10) has eight Africa-EU Partnerships in such areas as peace and security, democratic governance and human rights, and trade and regional integration. Most efforts so far have been organisational, to establish dialogue, trust and coordination. But expectations are high for further real delivery and funding commitments.

3.7 THE EU AS A SECURITY AND DEVELOPMENT ACTOR

Overcoming poverty and increasing security go hand in hand. This is nothing new: since the Truman doctrine and the Marshall Plan, security has always been embedded in development policies, in various ways and to different degrees.

The interaction between security and development is widely acknowledged, and embodies the core objectives of the EU in international politics: contributing to peace and stability and promoting democracy, human rights, the rule of law and effective multilateralism. The pathways towards coherent EU goals, operational plans and programmes, and ultimately meaningful action, remain challenging. As described above, the EU has been building a wide range of policies, instruments and initiatives to face development and security issues, notably in Sub-Saharan Africa.

⁵⁶ Political dialogue is also an important element of the Cotonou Partnership Agreement.

The objectives, values and timetables of donors and recipients are numerous and often conflicting. Bringing together different actors and resources, aid workers and soldiers, diplomats and business people, while urgently needed, is challenging and time consuming. And the EU is itself a complex and, at times, uncoordinated international actor.

Confronted with fragility and insecurity, it is tempting to look for some prerequisite – such as a new economic measure or a different political institution.⁵⁷ We suggest on the contrary that societies facing fragile situations can begin to change in the security and development domain “as they are in spite of what they are”.⁵⁸

Building on the rich experience of local initiatives and capacity and the EU’s involvement in linking security and development in African countries facing fragile situations, notably security sector reform and crisis management missions,⁵⁹ we argue that well-known and well-entrenched obstacles to change in the security-development nexus can be overcome.⁶⁰ We highlight six processes in fragile situations:

1. SECURING AND DEVELOPING: ANTAGONISTIC OR NONANTAGONISTIC CHANGE?

Advocates of policy changes simultaneously affecting security and development often perceive their proposed reforms as nonantagonistic: moving out of fragility, making the population more secure and, in so doing, freeing energies for development can only be beneficial to all actors and ultimately to the country. This assumption is however questionable.⁶¹ First, in fragile situations, insecurity and the remnant dysfunctional public institutions can be useful to both governments and rebels alike. Some actors might even create, preserve and exploit insecurity to ensure their political survival.⁶² In Sierra Leone, the rulers intentionally destroyed the state capacity in order to provide public goods themselves.⁶³ Second, in fragile situations, relative weakness and relative strength often co-exist. State institutions in the Democratic Republic of Congo, for example, have been weakened, but they have not disappeared altogether.⁶⁴ Facing the demands of donors, public authorities – fully aware of the situation of fragility of their country, and precisely because of this fragile context and their (relatively) precarious position – were able to keep and even reinforce their bargaining position and develop a strategy of avoidance and resistance. Even when sovereignty appears to be at its lowest point, the remaining state is capable of shielding from the donors what it sees as the core of its autonomy.⁶⁵

So, fragility-related insecurity is not necessarily bad for every local actor, and it does not imply weakness for all the actors involved. Local actors react and try to circumvent the donors’ strengths and exploit their weaknesses. And this is why straightforward engineering approaches are unlikely to succeed. The EU should shift its linear social engineering approach to a more flexible and strategic approach.

2. INSECURITY AS AN OPPORTUNITY FOR DEVELOPMENT POLICIES

Critics of the security-development nexus usually raise three concerns. First, the emergence of security in an already crowded policy agenda and of decision-makers with limited energies, capabilities and resources is bound to distract both donors and developing countries and hold back action on the main goal, reducing poverty. Second, security is only a surface problem, a symptom of deeper structural dysfunctions. Third, a genuine effort to face security challenges would probably go beyond the capacity of the donor and the partner country. In contrast, we suggest that the connection between security and development can generate opportunities for reform (box 8.9).

First, local populations often express a major and immediate concern for security and peace. For example, in the Democratic Republic of Congo’s Kivus civil society, representatives rightly claimed that elections should wait until peace had been established, but they were not listened to.⁶⁶ Ignoring these pressing concerns is counterproductive. Second, the emergence of security concerns is an opportunity for reformers to find new allies and to facilitate joint analyses and strategy formulations. Third, insecurity can act as a searchlight and help in the early detection of social ills that, if neglected, might become much more difficult to handle.⁶⁷ Finally, timid or perfunctory policy initiatives can have the unintended effect of mobilising those who stand to benefit from the proposed solution – in the donor countries as well as in the partner countries.

⁵⁷ Hirschman 1963, p. 6; Hirschman 1967, p. 5.

⁵⁸ Hirschman 1963, p. 6.

⁵⁹ Brzoska 2006.

⁶⁰ Hirschman 1963, p. 6; Hirschman 1985, p. 3-34 and 56-76.

⁶¹ Englebert and Tull 2008.

⁶² Clapham 1996, p. 208-243; Chabal and Daloz 1999, p. 3-16.

⁶³ Reno 2003.

⁶⁴ Englebert 2003; Trefon 2004, 2007.

⁶⁵ For example, in the Democratic Republic of Congo two important security services – military and civilian intelligence and border guards services – have been kept outside of security sector reform (Melmot 2008; Davis 2009).

⁶⁶ Autesserre 2009, p. 271.

⁶⁷ Hirschman 1981, p. 119, 149.

Box 8.9: Security and development challenges in fragile situations: lessons from ESDP operations

by Dr Damien Helly, EU Institute for Security Studies

The ESDP was born 10 years ago in the Balkans. Since then, the European Union has used it as a very unique military or civilian crisis management tool in a variety of fragile situations. Of 23 ESDP operations, 8 have been deployed in Africa, and some are still ongoing. All ESDP operations in Africa have to deal with some form of fragility. A recent book edited by researchers from the European Union Institute for Security Studies provides comprehensive data and critical assessment of the ESDP after 10 years⁶⁸. Some of its findings, based mostly on field interviews, can inform the debates on security and development, on situations of fragility and on the need for more coherence among EU instruments and policies.

- Over 10 years the EU has increased ESDP coordination with European Commission policies in fragile contexts. Since 1999, interlinkages between security and development challenges have become a well shared *leitmotiv* in policy discourses. Basic security needed for poverty alleviation, job creation and business development has been well-documented in key European policy documents, boosting awareness in policy planning. For instance, Brussels headquarters planned joint actions in Chad in 2008 aimed at mutual reinforcement. The Programme d'Accompagnement à la Stabilisation, funded by the European Commission, aimed to complement military deterrence, though coordination proved difficult and slow in practice.
- Despite progress at the strategic level, security experts, development promoters, economists and humanitarian actors still need to intensify the dialogue on fragile situations. Competition for resources to fund development and security can be high. Cooperation aid programme managers and security experts hardly exchange information on the potential security impact of, say, a transport infrastructure project. And while some types of experts work side by side, such as militaries and humanitarian actors, experience gathered during crisis management operations needs to be better disseminated. For instance, European Forces Chad/Central African Republic provided lessons for both the military and the humanitarian community, but it is unclear how they will be communicated to others.
- In fragile situations, qualitative assessments are as relevant as quantitative data. While economists mainly work only with tangible data, political scientists or intelligence analysts also use qualitative approaches. In the case of police or army reform in the Democratic Republic of Congo, sound understanding of local politics and power games is fundamental to establishing data collection mechanisms such as census databases. The European Communications Security & Evaluation Agency of the Military Committee, a mission in charge of assisting Congolese authorities in the reform of the army, spent its early years building mutual trust with national stakeholders through strong personal ties, human intelligence gathering and military expertise. Conversely, in Guinea-Bissau, where the small number of soldiers (fewer than 6,000) suggests that army reform would be easy, governance and power factors such as the symbolic power of veterans, intimidation and illicit trafficking have proved to be serious obstacles. Human realities sometimes contradict data.
- European initiatives in security and defence depend largely on the agenda and the political will of local authorities. When local authorities are reluctant to host ESDP operations or foreigners supposed to help reform their security apparatus – often for political reasons or because of vested interests – it proves extremely difficult for Europeans to maximise their impact. This has become obvious in the Democratic Republic of Congo when, after the 2006 elections, the government expressed much less interest in security sector reform. It was also confirmed in Guinea-Bissau, where the EU security sector reform mission found it extremely difficult to enter in a dialogue with the late army chief of staff, Tagmé Na Wai. It was obvious in Sudan, when the leadership did not wish to host an African Union/UN peacekeeping operation and delayed visa processes for EU staff supporting the planning and the chain of command of African Union Mission in Sudan, the African Union peacekeeping force in Darfur.
- After 10 years, ESDP personnel have learned about the difficulties of implementing local ownership, particularly in fragile countries where state capacities are close to nil and where local officials lack the capacity to absorb or cope with EU offers or interventions. The short mandates and high turnover of ESDP operations have rarely matched their counterparts' needs for long-term capacity building.



⁶⁸ Grevi et al. forthcoming.

- The EU suffers from a policy implementation gap in fragile environments. Despite an impressive tool box of strategies, communications and programming documents to address fragility, prevent conflict and support peacebuilding, the EU has much to do in translating these policy orientations into practice. EU staff frequently ignore key policy documents that guide their day to day work and decisions in fragile situations. Although well equipped with policy tools like Linking Relief, Rehabilitation and Development, the EU does not systematically use them in country. Training for personnel working in fragile contexts should be cross-cutting and more systematically implemented.
- When dealing with fragile situations, the EU has yet to identify its foreign policy priorities. Although state failure is mentioned as a threat in the 2003 European Security Strategy, key European strategic interests in Sub-Saharan Africa remain unclear. Some European states, mostly the former colonial powers, have concerns about fragile states in Africa, not least because they represent important threats like terrorism and drug, arms and human trafficking. But these concerns may not be equally shared by all EU member states, leading to the absence of clear foreign policies priorities in Africa, apart from those defined by continent to continent partnerships or by the Cotonou Partnership Agreements. More research is needed on this aspect and will be carried out by the European Union Institute for Security Studies in 2010.
- Officials from fragile countries often blame the EU for its contradictory policies. Commercial protectionism in particular is cited regularly as hampering development. Despite the new compensatory mechanisms, such as the Aid for Trade programme, political dialogue is still marked by mistrust. Dealing with fragility will therefore imply efforts towards genuine dialogue and the willingness to overcome past prejudices and acknowledge mutual responsibilities.

3. FRAGILITY LEADS TO THE RISE OF PARALLEL LOCAL SECURITY INSTITUTIONS

The withering of state capacity in fragile situations does not imply an absence of governance. In fact, fragile situations have triggered “local institutional initiatives that facilitated the survival and organisation of social life during the years of conflict and that could be useful in the future”.⁶⁹ Traditional chiefs, civil society groups, churches and aid agencies step in to take charge of security.⁷⁰ Fragile situations can accentuate unequal access to security and justice, intolerance of outsiders, violence, illegality and unaccountability. But in some cases poor state policing and sovereignty have reinvigorated self-policing⁷¹. The resulting “multichoice policing” provides a safety net and deepens local democracy. The success of this alternative policing would be further helped by favourable state responses and EU support.

4. SEQUENCES AND IMBALANCES CAN CONTRIBUTE TO SECURITY-DEVELOPMENT REFORM

To tackle the development-security nexus in fragile situations, “joined-up” strategies that combine all policy tools simultaneously in a coherent package that includes political, security, humanitarian and development instruments are often considered well suited to the discontinuity of the context.⁷² But, while some coordination is valuable – especially within the EU – there might be no need to spend considerable effort on early integration and on a simultaneous or balanced approach to the security-development nexus. Seesaw advances and adjustments of security and development policies are inevitable in fragile contexts. They are desirable because policy-makers become aware of the imperfections and imbalances of their action through failures, irritations and discomforts.⁷³ For example, in Sierra Leone there were no conceptual or substantial links among the elements of security sector reform, which proceeded independently,⁷⁴ but Sierra Leone is frequently presented as an example of good practice, even by the OECD-DAC.

Sequential problem-solving brings the risk of becoming blocked at one step or in one domain. Still, given the pervasive conventional wisdom about the need for coordination, it is useful to bear in mind that duplication, confusion and lack of communication among people working along parallel lines are not always bad, and can even lead to less costly and faster reforms.⁷⁵

⁶⁹ Englebert and Tull 2008, p. 125, 127.

⁷⁰ Vlassenroot 2008, p. 2.

⁷¹ Baker 2008.

⁷² Faria and Magalhães Ferreira 2007.

⁷³ Hirschman 1985, p. 74-75.

⁷⁴ Horn et al. 2006, p. 110, 118.

⁷⁵ Hirschman 1981 p. 66.

5. SECURITY AND DEVELOPMENT DO NOT NECESSARILY ADVANCE JOINTLY

It is important to know whether ensuring security can trigger sustainable human development. In that regard, an assessment of 17 UN-led state-building operations five years after they had started revealed that although there is a potential link between security – defined as the absence of war and the reestablishment of a full monopoly over the means of violence – and other dimensions of state building, such as economic development, democracy and the creation of institutional capacity, security does not automatically lead to positive consequences for the rule of law or the effectiveness of government, economic development and democracy.⁷⁶

The connection between security and development progress can take different forms, and the pattern is not always an interrelation between the two policy domains. Proclaiming that the two domains are completely separate would be an overreaction. While security and development might not always be tied together in a functional way, alternating between interdependence and autonomy at different points in time and in different contexts is possible.⁷⁷

6. LESS CAN BE MORE

The EU boasts its continuing involvement and the relative stability of its engagement in state-building and development more generally. However, gaining flexibility in this regard and allowing for periods of selective disengagement could enlarge the range of initiatives. The assumption that “more state-building is better state-building” is widespread among Western policy-makers,⁷⁸ who allocate more resources to fragile countries considered important, such as Afghanistan, Bosnia, Iraq and Kosovo, than to countries considered peripheral. From a security standpoint, this implies that stronger EU and UN military missions, with more military means and more robust mandates, would offer the best opportunity for success.

The experience of development policies, specifically in the realm of security and development, shows that some uncoupling and disengagement can have positive consequences.⁷⁹ Less, or more limited and selective, engagement can provide room for social experimentation and favour the growth of local initiatives. Framing the Democratic Republic of Congo as a test case for UN peacekeeping by, for example, implying an intense engagement – often portrayed as a “protectorate” – led to problematic policy choices during the transition from war to peace and democracy in 2003-06.⁸⁰

⁷⁶ State-building missions achieved important security goals: 13 of the 17 missions ended war (1,000 battle-related deaths a year or during the war). While ending war was harder in the poorest postwar countries, state-building operations achieved their goal in this context as well (7 of 11 cases). State-building missions were less successful at reestablishing a full monopoly over the means of violence (9 of 17 cases). But this success in the security realm has limited implications for other dimensions of state-building (Zürcher 2006).

⁷⁷ Hirschman 1981, p. 142-166; Hirschman 1995, p. 221-230.

⁷⁸ Englebirt and Tull 2008, p. 135-139.

⁷⁹ Hirschman 1995, p. 190-192.

⁸⁰ Autesserre 2009, p. 258.

CHAPTER 9

CONCLUSIONS – PRIORITIES AND PRESCRIPTIONS

The European Union has a wide range of policy instruments to tackle the challenges posed by fragile states, and it has been reviewing and refining them regularly over the last decade. Nevertheless, EU engagement with fragile states still suffers from an “implementation gap”, which drives a wedge between official commitments and the operationalisation of its policies.¹

1. EU POLICIES CAN HAVE AN IMPACT

The EU has the potential to influence Sub-Saharan African fragile states’ development prospects and in particular to help them enhance their resilience to shocks. To do that, however, it needs to develop conditions of trust and to learn from and build on its experiences. It is not alone in this difficult task, which requires cooperative action by all actors engaged with fragile countries.

The EU could improve the effectiveness of its engagement by acting decisively and defining policies with one voice. Discussions among EU members and within the EC have to be open and wide-ranging, all the more so because the engagement towards fragility is a politically sensitive issue. But once a policy has been jointly defined and agreed, the EU should commit to long-term policies and not shift its objectives or core areas of intervention. The problems of fragile states are mainly structural and persistent, and dealing with them requires a long-term, stable commitment by external actors. Concentrating efforts on a few well-defined priorities would make it easier to simplify procedures and reduce red tape. And the EU should make its commitment to fragile states credible, its policies easily understood and its impact substantial; it should also tailor general policies to address specific issues and adapt them to individual contexts.

When countries are regarded as not eligible for budget support,² or when knowledge of the local context is particularly important, donors and recipients may not be in a position to efficiently implement or monitor aid policies. These could then be delegated to other official partners, civil society organisations or independent service agency (see box 9.5 later in this chapter). Delegation may help addressing complex local problems and ensuring adequate commitment. In situations where aid is not efficiently used, or donors channel much of their aid to informal institutions or nongovernmental organisations, it may be worthwhile to separate the different functions of governments: policy formulation from the allocation and monitoring of funds. Separating the task of setting long-term development policy goals from implementing policy measures will make it independent from immediate political pressures, avoid commitment problems and develop appropriate technical capabilities. The basis for such a division already exists, though changes in governance would be needed to implement long-term policies efficiently.³

1.1 EU COMPARATIVE ADVANTAGES

The EU has a comparative advantage in formulating strategies to help fragile countries enhance their resilience; to exploit that advantage, it should concentrate its actions on developing human and social capital and supporting institutional development at the local and regional levels. This comparative advantage is rooted in its own history of enlargement as well as in the large array of policies the EU can count on to shape its action. As explained in chapter 8, unlike most aid agencies,⁴ the EU can use any combination of trade, agriculture, fisheries, migration, climate change, environment, social dimension of globalisation, research and development, information society, energy, security and governance. The impact of these policies, positive or negative, on state fragility extends well beyond the provision of financial assistance.

The EU’s history is one of institutional development in diverse and complex societies, each with its own domestic institutions. And the EU has considerable experience in addressing the problems of states with dysfunctional institutions or in transition. Some current EU members (Greece, Portugal and Spain) were able to move peacefully from militarised dictatorships to democracies during the 1970s. Over the 1990s the EU also helped Eastern European countries through their economic transition, which required important institutional reforms, transformations of governance systems and state delivery mechanisms. These experiences are themselves a comparative advantage, since the EU can use its own experience as a “toolkit” in situations of fragility.

¹ Chapter 8 discusses at length where there is more need to intervene in order to make EU commitment more successful.

² See OEDC (2009) for a discussion of the conditions under which budget support represents a suitable aid modality in fragile states.

³ Collier 2009b.

⁴ See the background paper by Collier (2009a) in volume 1B on this point.

Aid agencies and international institutions often focus on short-term remedial measures or, because of their institutional duties, on one specific issue.⁵ The United States has a range of policies similar to those of the EU but a different history and, despite renewed interest in Sub-Saharan Africa, is geographically distant.⁶ China (and Arab States) tends to concentrate on building infrastructure and on foreign direct investment in land, which can be a blessing or a curse for recipient countries. While the EU can also be involved in building infrastructure, it should concentrate on developing institutions and human and social capital, areas of EU comparative advantage.

1.2 THE NEED FOR EU INTERVENTION IN AN UNFAVOURABLE GLOBAL CONTEXT

Mobilising domestic resources and strengthening state institutions and social cohesion are the keys to enhance resilience. Both actions, almost by definition, are difficult for fragile states on their own. Thus, while there is a need for EU intervention, tackling fragility in Sub-Saharan Africa is a major and risky challenge.

But inaction would also have high costs for both donors and recipients. For fragile countries, the costs are reflected in poor human development and lack of security related to the persistence of development gaps. For Europe – geographically close to Africa and its problems of explosive demographics, refugees, illegal trafficking, smuggling, gender-based violence and pirates – negative spillovers may be very high.

The challenge is all the greater because the EU needs to engage with fragile states while respecting their national sovereignty. Fragile states are rarely accountable to their citizens, but they should be given the space to assume ownership of their policies. While low enforcement capacity undermines taxation, the inability to manage domestic resources effectively hinders governance.

The 2008-09 economic and financial crisis has made engagement in fragile states even more daunting. Fragile states have been hit hard by a crisis that they did not cause and that is likely to push even more countries into fragile situations, making the Millennium Development Goals more difficult to achieve by their 2015 deadline. This crisis has been a strong negative shock to per capita income and has followed on two other devastating crises for fragile countries: food and fuel. The near simultaneity of the three crises has had a multiplier effect, making emergencies the rule rather than the exception. Fragile countries, attempting to respond to what they believed were short-term shocks, have lost the long-term perspective needed to overcome fragility.

The economic environment is also affected by the historical debt overhang and serious domestic social problems affecting EU countries. The crisis makes the commitment to long-term policies even more important, along with more efficient use of development aid. Short-term ad hoc policies, weak implementation and monitoring, and the fragmentation and duplication of aid have been sources of inefficiency. They need to be replaced by the simple rules mentioned above: speak with one voice, focus on long-term policies and delegate to partners, as appropriate.

1.3 A ROLE FOR NONSTATE ACTORS IN FRAGILE COUNTRIES

The state has long been the main entry point for donors, who view intervention through state institutions as a way to increase accountability, address gender inequalities, create trust, establish a shared legal framework and guarantee the rule of law.

But current state institutions are influenced by the historical roots of state formation and their interactions with geographic characteristics and ethnic or religious groups. Furthermore, governments in Sub-Saharan Africa tend to claim that they are not responsible for fragility, blaming “external” causes.

Thus state-building and achieving social cohesion require mobilising nonstate actors – sometimes outside the structure of fragile states – with knowledge of the local context.

⁵ For instance, FAO deals primarily with food security and agriculture development.

⁶ Gartner 2009.

2. PRIORITIES AND PRESCRIPTIONS

The EU should consider both the common and the country-specific characteristics of fragile states in Sub-Saharan Africa (see chapter 2) and its own comparative advantage in relation to other donors and international institutions (see the discussion above and chapter 8) when defining its own priorities,

Though fragile countries in Sub-Saharan Africa differ from one another in many ways, they share some common weaknesses that hinder the creation of a strong state capable of performing its core functions. These hindering factors are:

- The inability to mobilise domestic resources and the ensuing heavy dependence on external sources of funds.
- The reliance of the economic system on a few primary products (in most countries, just one) which lead to an unstable pattern of growth and a heavy concentration of export revenues.
- The poor status of their soft and hard infrastructure, which cuts countries off from the benefits of globalisation, hindering their access to main markets.
- Low human development, which undermines the ability to grasp opportunities.
- A high exposure to the risk of break-out of armed conflict.

These characteristics hamper the achievement of what constitutes the fundamental objective of external engagement in fragile countries, namely contributing to the endogenous process of state-building.⁷ The EU has endorsed this core priority in its European Consensus on Development,⁸ so that its engagement towards Sub-Saharan African fragile countries needs to be focused on this long-term goal. These five common characteristics suggest five key priorities for EU engagement in fragile countries:

Priority 1: Identify and support the driving forces and actors of state-building and social cohesion. European assistance to state-building is complex because it cannot be inspired by an external view. The state-building process for African fragile countries will not resemble the 19th century process of state-building in Europe.⁹ Similarly, social cohesion will not be the same among ethnicities and religions whose differences go back hundreds of years. Knowledge of the local context therefore is crucial in the external engagement in fragile countries. This is necessary to identify which actors can be the drivers of change, leading these countries out of fragility, possibly through different paths. While “change actors” have to be strengthened, in particular encouraging women’s participation in state-building, it is also important to weaken the possible “veto players”¹⁰ and to support leaders in their efforts to rebuild a new social trust between the state and citizens and between different factions and ethnicities that risk splintering into conflict. If certain groups are discriminated against and excluded from political representation, the likelihood of conflict is higher and the move out of fragility more difficult.

While some organisational capacity exists in fragile states,¹¹ it needs to be redirected to other shared goals, such as mobilisation of domestic resources and better governance of natural resource revenues. Elite groups can play an important role, but in some fragile states, ethnic or religious factions may have little incentive to build effective state capacity or may even have interests in undermining it. Hence, they are not motivated to reach consensus. And the lack of social cohesion weakens demand for good governance at the community level

Priority 2: Bridge the gap between short-term needs and long-term policies and resilience. To shift attention in fragile states from meeting urgent short-term needs to planning for the future, the EU could establish insurance mechanisms for reducing the risks of volatility in export revenues. With a more stable revenue base (box 9.1), fragile states could design long-term domestic policies. Indeed, given the low resilience of fragile countries to external shocks, particularly to fluctuations in commodity prices and the terms of trade, the developmental potential of donor assistance to strengthen risk-coping and insurance mechanisms, as well as the possibility to use aid flows to ‘smooth international shocks should be carefully considered, as recently observed by Bourguignon et al. (2008).

⁷ OECD/DAC 2007.

⁸ European Parliament Council Commission 2006.

⁹ Elections are often considered essential for state-building. But elections can be manipulated unless people share the belief that they express the collective will of the country.

¹⁰ Magen and Morlino 2008, p. 256-57

¹¹ For instance, some countries are able to organise troops, and others are able to make the education system work well; and others have efficient money transfer systems.

Box 9.1: A proposal for revenue stabilisation

To help fragile states lengthen the time horizon of their policies, often constrained by emergency conditions, the EU could commit in advance to redirect aid flows to countries whose export prices fall below a trigger level. Fragile states could then pursue longer term priorities, knowing that their revenues would not go below a certain floor.

Implementation can be daunting. Credible commitment is the first step. The basket of products and the intervention price need to be decided in advance, to avoid interfering with domestic production and export choices. And the stabilisation mechanism should be clearly temporary. Countries could be rewarded for committing funds to long-term policies, such as in education and health.

The EC could have a comparative advantage over other donors in supporting such a mechanism. Individual countries are unlikely to commit a sizeable portion of their aid disbursements to such an automatic mechanism, while the EC – which mediates the interests of member countries – could more credibly commit to such a device. Monitoring of the funds could be assigned to local civil society organisations (again in advance to avoid credibility problems).

Priority 3: Enhance human and social capital. Investing in education in fragile states, trying to narrow the gender gap and building social capital are crucial to sustaining growth and development. Fragile countries suffer disruptions in public education that lower enrolment rates and increase adult illiteracy rates. Adequate funding is needed not only for basic education but also for higher education. In 1970, some 30% of adults in Sub-Saharan Africa could read and write. By 1990, 51% could, and by 2006, 63% (but only 59% in fragile states). The literacy gap must be closed as quickly as possible. With higher literacy rates, fragile countries could substantially improve their human development record and foster economic growth. Women's education is particularly important, because it affects fertility rates and the health and well-being of household members, especially children¹². Targeting interventions to boys and young men could also be crucial, especially in postconflict fragile states, for reducing the attraction of illegal activities such as trafficking and smuggling. Against this background, education might not be the only solution for young male, hence, measures to reduce heavy regulation and to ensure an appropriate business environment with few economic or bureaucratic barriers could also be implemented (at zero cost). This would be crucial to create jobs and therefore bring hope and a future to the younger generations, convincing them that being a rebel is not the only way to move ahead.

EU member countries could open their borders to students from fragile states, knowing that foreign education contributes to institutional development in countries of origin (box 9.2)¹³. The EU could also help by developing local universities and research centres and establishing incentives to stimulate innovation in areas such as efficient use of water under unfavourable climate conditions and dealing with health problems such as AIDS and malaria.

Box 9.2: EU policies and African human capital development

By Yaw Nyarko, New York University

Human capital is an important ingredient of economic development. In Sub-Saharan Africa, levels of human capital remain low, despite massive government investment in education. Increasing human capital development in Sub-Saharan Africa – one of the best ways of improving living standards and economic development – is an area where the EU can play an effective and distinctive role.

Many studies have shown the links between human capital and economic development (see Spiegel and Benhabib 2005 and references cited there). Skilled workers are needed to facilitate adoption of new technologies, introduce entrepreneurial activities, run and manage the healthcare system, and plan national economies. Despite the large percentages of government budgets spent on education, educational attainment remains low in many African countries. In 2000, the last year with fairly complete international data¹⁴, the number Ghanaians with a tertiary education – in a country with more



¹² According to anecdotal evidence (see Gartner 2009), children of mothers who receive five years of primary education are 40% more likely to live beyond the age of five. Hence, given the high under-five mortality rates in fragile countries, emphasised in chapters 1 and 2, the impact of such an investment could be substantial.

¹³ See, for instance, Spilimbergo (2009).

¹⁴ Docquier and Marfouk 2005.

than 20 million people – was around 81,000. To put this number in context, New York University (where I teach and which is one of many in New York State) has an enrolment of about half that number. Many other African countries have similarly low numbers – Kenya has 124,000, Uganda has 63,000. And in many African countries, the percentage of the relevant age cohort with a tertiary education is between 3% and 5% – well below international standards. It is around 70% in the Republic of Korea, Singapore and other countries.

The picture for physicians is just as sobering. In 2004 in Ghana, the data record 1,860 doctors – about the same number as the current enrolment of the New York University medical school. This number implies a patient-doctor ratio of 11,200 to 1. Malawi recorded 124 doctors in 2004, for an alarming patient-doctor ratio of 88,000 to 1. Patient-doctor ratios in the West are around 227 to 1 for Italy and 476 to 1 for the United Kingdom.

Sub-Saharan African countries have made tremendous strides in human capital since independence in the early 1960s, but much more needs to be done. But as soon as the topic of skills accumulation in Africa is mentioned, the discussion almost invariably turns to the brain drain, which is used as an argument for restricting external assistance to higher education in Africa and the outflow of skilled personnel to the West. This is a mistake. There are subtleties in measuring both the brain drain and its returns. This is an area in which the European Union could take a leading role in ways that could benefit Sub-Saharan Africa enormously – and EU countries as well.

The percentages of tertiary educated Africans living abroad are high: 52% for Sierra Leone, 46% for Ghana, 44% for Kenya and 35% for Uganda. The measured brain drain has a number of subtleties that should be recognised, however. First, the brain drain is a snapshot of the skills in different geographic areas at a given point in time. Many of those currently managing hospitals, ministries and other institutions in Africa are people who went abroad for education and later returned with improved skills. Those individuals were at one time counted in the brain drain statistics. The skills of people who return after training are vitally important to the national development of the home country. The data show fairly high return rates after completion of education, so there is quite a bit of brain circulation and not merely drain.

Recent research also points to the importance of remittances of workers abroad to home country economies. Easterly and Nyarko (2009) attempted to quantify the pluses and minuses of the brain drain, taking remittances and returned skills as pluses. That research indicates the importance of brain circulation to the sending countries.

Others have shown a large incentive effect for the brain drain. The possibility of leaving local economies to pursue further studies abroad or earn higher wages increases the desire to acquire a higher education, which may lead to increased levels of education in the local economy even after some have gone abroad. And even if all the Ghanaian and Malawian doctors living abroad were to return home, patient-doctor ratios would still be well below international standards. What is needed is a massive increase in skill levels – a 10-fold or more rise in the enrolment levels.

Several recommendations flow from the analysis here:

- Establish an EU blue card, along the lines of the U.S. green card. Various EU blue card proposals would ease immigration to Europe for skills acquisition, increasing the welfare of those who emigrate and remittances to family members. Many will eventually return to their home countries with improved skills. The return of skilled workers and professionals to their home countries should be encouraged (with flexible “sabbatical” periods for holders of the card). In the global competition for skills, instituting an EU blue card system would enable Europe to compete much more effectively with the United States and its green card for the highly skilled. If designed appropriately, both Sub-Saharan African and EU countries would gain.
- Bilateral migration contracts that allow for the emigration of fixed numbers of workers from Africa to Europe should be expanded. Such contracts should be designed to allow and encourage the return of skilled workers to their home countries.
- Student loan schemes and investments in professional education should be scaled up to meet the need for massive increases in skilled and professional workers in Africa. This process could become self-financing, with higher repayment scales for students who emigrate and discounts for students who stay in the home country, and with all students repaying loans when they begin employment. Financing from the EU could help to set up these schemes.

Migration and the circulation of people, skilled and unskilled, have always been a part of human history. The source of all migration is probably the great human migration from the East African rift valley, which eventually led to the first human



settlement in today's Europe. There have also been massive movements of Europeans to settle the new world from the 1500s on. In the 1700s, Africans were being trained in European universities. Fourah Bay College in Sierra Leone, one of the first European-style universities in Sub-Saharan Africa, was initially a centre for returned slaves and later became an incubator of African independence movements.

It would be a terrible mistake if the current financial crisis and an incorrect understanding of the brain drain were allowed to derail the important skills development process and brain circulation. Rather, the incentive to migrate and the benefits of migration could be used creatively to increase human capital levels in Sub-Saharan Africa while also benefiting Europe.

Priority 4: Support better governance at the regional level, including regional integration processes. Policy responses at the regional level could take advantage of regional integration mechanisms that help to internalise spillover effects across neighbouring countries or substitute for some local institutional weaknesses (box 9.3).

Box 9.3: A right level of regional integration

Within the Joint EU-Africa Strategy, the EU could promote more subregional political dialogue and contribute to effective implementation of the subsidiarity principle based on trust. Local leadership is important if regional arrangements are to contribute to state-building. Adequate incentives are needed for regional leaders like Nigeria and South Africa to enter fully into regional economic partnership agreements and to provide leadership.¹⁵

Because of the great economic heterogeneity within African regional groupings, integration with the EC (and the global market) will likely have significantly different impacts across countries. Configurations of subregional “hub-and-spokes” can emerge or be reinforced, creating tensions and increased inequalities within the subgroup. Transfer mechanisms may be needed to mitigate such situations and reduce regional inequalities. Subregional investment projects should be designed and subsidised to favour local convergence. Within the strategy, political dialogues with subregional leaders may be targeted to stimulate their contribution to such subregional compensating mechanisms. In this respect, the EU could use its own experience in promoting subregional structural funds.

¹⁵ These countries have not signed any interim agreements and are trading with the EU under other trade regimes.

Regional trade agreements can enable African countries to achieve economies of scale, enhance domestic competitiveness, and raise returns on investments and attract foreign direct investment, leading to technology transfer and economic growth. Regional agreements could also enable economies to pool resources for the joint provision of infrastructure projects, thus internalising the cross-country regional effects of such investments.¹⁶ And they could give small African countries a stronger voice in negotiating agreements with other trading blocs or private partners.

Looking at scale economies in the provision of security and other public goods, and at the production of private nontradable goods, one could argue that the typical African state is too small.¹⁷ And standard theory on internalisation suggests that both the supply of regional public goods (such as cross-country transportation and network infrastructure) and the regulation of regional public “bads” (such as neighbourhood arms races, disease diffusion and insecure borderlands) are best realised through intra-African arrangements.

Regional integration agreements can also be tools of institution-building. They can help lock in policy reforms and build commitment devices – especially relevant for states with a weak domestic commitment capacity. Entering a trade bloc with strong “club rules” can help anchor democratic reforms and centre credibility on member countries.

The regional integration approach has had limited success in Sub-Saharan Africa so far. Enforcement of rules can be an issue along with the ambiguity associated with regional leadership. Because of poor governance, weak national institutional structures and lack of political will, regional policies have often been poorly implemented. The economic effects of trade agreements have been somewhat disappointing, and regional integration of political power has been especially limited, with little devolution of power to regional organisations.¹⁸ Insecurity and fragility present challenges to successful regional integration.¹⁹ And the initial logic of political regionalism in Africa rested on a strong attachment to state sovereignty and the principle of noninterference.²⁰

The New Partnership for Africa’s Development reflects more recent attempts to “pool sovereignty” to improve governance through the African Peer Review Mechanism. These recent developments are consistent with a view that recognises both the importance of regional interdependence, which lead to fragility clusters,²¹ and the failure of a pure (European-style) “state-centred” approach to capacity building.²² Such regionally led processes of governance-building should be promoted more extensively to support state-building in weak countries (box 9.4).

Box 9.4: The dilemma of leadership and hegemony in regionally led governance-building

Conceptual considerations suggest that regionally led governance-building is likely to be more effective when the arrangement includes large partners that are more credible in enforcing bloc rules and therefore will provide better anchors for political-institution-building. At the same time, enforcement has to be rule based. The large partners should not use their superior (and credible) enforcement position for opportunistic and hegemonic motives. This introduces an important policy dilemma in that the characteristics that make a large partner a credible enforcer of bloc rules can also induce it to become hegemonic. This ambiguity may generate mistrust within the bloc and limit the effectiveness of the rule-based system.

In Africa, this situation is illustrated by the two regional agreements with dominant partners: the Economic Community of West African States with Nigeria and the Southern African Development Community with South Africa. The existence of a major player in the region has stimulated some leadership that allowed the conduct of African security missions on the continent (in Lesotho and Liberia). But in both cases, there were presumptions that the use of the regional mechanisms was ex-post rationalising of opportunistic motives. South Africa’s position as a credible enforcer of “good governance rules” in Southern African Development Community has also been undermined by its apartheid legacy and the inherited mistrust that still exists with its regional partners. As noted by one observer, “South Africa’s claim to the status of “security manager” in Southern Africa, although not officially pronounced, is not uncontested, especially by countries such as Zimbabwe, who have previously enjoyed a status of a regional hegemony before South Africa was reintegrated into Southern African Development Community”.²³ The enormous economic disparities between South Africa and its regional partners have



¹⁶ See Collier 2006. UNCTAD (2009, p. 41), for instance, maintains that regional cooperation should be centred on infrastructure development and emphasises the benefits of joint infrastructures; in East Africa “the railway was a regionally managed and relatively cheap mode of transport linking Uganda to the ocean via Kenya. This changed in 1977 when East African Railways was split into national segments managed at the national level. The split reduced the efficiency of the railway as it introduced additional costs pertaining to management, maintenance, border controls and other coordination costs”.

¹⁷ Collier 2006.

¹⁸ Yang and Gupta 2005.

¹⁹ UNECA 2006; Fanta 2008.

²⁰ Gandois 2005.

²¹ UNECA 2004.

²² Kaplan 2006.

²³ Qobo 2007, p. 17.

also continued to feed feelings of envy and fears of regional hegemony that have reduced its legitimacy as a regional leader. They have also stimulated other Southern African Development Community countries to enter alternative regional arrangements to counter South Africa's dominance.²⁴

Priority 5: Strengthen security in the area. A long-term effort is needed to keep and expand European citizens' willingness to remain engaged and involved in global governance. In designing security policy, EU policy-makers should account for the fact that actions in a number of fields, from agriculture and fisheries to trade, can have security implications and that security initiatives can have implications for development and trade. The EU should shift its linear, social engineering approach focused on its available instruments to a more flexible, strategic approach that recognizes the contested and political character of many donor objectives and policies. The growing resort to instruments of civilian and military crisis management is an opportunity not only to encourage joint planning (military, civilian, and development) but also to think more strategically. It is also an opportunity to reward adaptation and risk-taking by local staff, often essential in fragility situation. Ignoring the security needs of the population is counterproductive: instead of implementing a pre-existing blueprint, much can be achieved if the security needs of the population are taken seriously, a first step towards a genuine local ownership.

2.1 THE NEED FOR A FLEXIBLE LONG-TERM APPROACH

To respond to the heterogeneity in performance and characteristics of the fragile states in Sub-Saharan Africa, the EU needs a flexible approach and new forms of aid governance and development assistance to improve its efficiency (box 9.5).

Box 9.5: Reassessing aid governance

By Ramon Marimon, European University Institute and Pompeu Fabra University

The effectiveness of any funding policy depends on its implementation. This is especially important in the case of aid to fragile states. The problem has long been recognized; it was the focus of the 2005 Paris Declaration on Aid Effectiveness and of the follow-up 2008 Accra Agenda for Action.

Designing effective governance of aid policies first requires identifying the actors (donors, donor governments, recipients, recipient country governments) and their relationships, specifying who is responsible for defining general and specific objectives and corresponding programmes and who will implement them. Especially important is establishing the role of aid agencies and their autonomy with respect to other actors.

The simplest design for aid governance is budget support in a situation where there are no issues of eligibility or special needs for monitoring.²⁵ In such an ideal situation, there is little need for aid agencies because recipient governments (here identical with recipients) directly implement the right policies. Donors may set general objectives, but recipient governments set specific – but also often general – objectives. However, such an idealised form of budget support presupposes that recipient countries have government institutions that are representative of recipients' interests, highly developed and committed to good policies. This is not the case in fragile states. In fact, the commitment problem arises even in developing countries with reasonably good governance: annual budget revisions often mean that development policies suffer discretionary cuts when other acute needs take precedence. The recent financial crisis has provided many examples of such a commitment problem – a problem that can be avoided by delegating aid policies and committing multiannual budgets to aid agencies.

Commitment problems are not limited to problems of discretionary finances, they also emerge when trust is eroded by discretionary policy shift or when aid policies are vulnerable to manipulation by powerful groups. Thus mitigating commitment problems is a primary rationale for having autonomous aid agencies able to pursue long-term objectives without discretionary shifts and local distortions. A second rationale is that, when budget support – to governments or nongovernmental organisations – requires close monitoring, or is not efficient, aid policy becomes very complex, requiring adequate capacity, specialisation, local knowledge and professionalisation.



²⁴ For instance, Southern African Development Community members Malawi, Mauritius, Zimbabwe and Zambia among fragile countries are simultaneously participating in the Common Market of Eastern and Southern Africa.

²⁵ Regarding conditions of eligibility and related monitoring issues, see EuropeAid Office of Cooperation (2009).

Neither donor agencies nor recipient government agencies are immune to commitment problems, nor do they have adequate capacity. Dependent on their governments, they are unable to isolate themselves from policy and budget shifts. Donor agencies, distant from recipient countries, lack the proper incentives, local knowledge and trust to effectively and consistently monitor or implement aid policies. Recipient government agencies, too close to recipients, may be influenced by powerful local groups to divert aid from its most efficient use, or may lack the proper incentives to monitor the allocation of aid, either in the form of budget support or of aid programmes; they may have local knowledge, but they lack the capacity to learn from others or to build reputation and trust to attract external funds.

Within the Paris-Accra principles of ownership and alignment,²⁶ a reassessment of aid governance is also needed. Donors (and developing country governments) should define the general objectives and commit to long-term development policies. Such commitment can be better maintained by delegating programme implementation to service aid agencies and transferring funds to them. An immediate concern is whether such an open and more competitive approach will exacerbate the fragmentation problem.²⁷ Having multiple donors and recipients can be a virtue. The fragmentation problem arises from having too many agencies, each with different locked-in relationships, and very limited capacity to monitor or manage complex aid programmes. As in other competitive service industries, there are economies of scale in providing aid services, and agencies that provide professional aid services should find their appropriate size and specialization, avoiding inefficient fragmentation.²⁸

To summarise, there are several principles of governance and trust in aid policy that should be followed:

- Donors and developing country governments should define general long-term objectives (“engaging in open and inclusive dialogue on development policies”).
- Aid programmes, or budget support programmes needing monitoring, should be delegated to service aid agencies, which should apply local knowledge in defining specific objectives and programmes, and their local and specialized knowledge in evaluating and monitoring aid or budget support programmes.
- Service agencies should be independent of donors, developing country governments and final recipients.
- Aid agencies should be professional, stable, adequately funded and accountable.
- Donors should be able to assign funds to a range of agencies, and agencies should be able to direct aid in response to results, not just established relationships.

The Accra Agenda for Action states that “achieving development results – and openly accounting for them – must be at the heart of all we do.” The five principles expressed here are a restatement – and a more specific definition – of this goal, when results cannot be achieved by simply transferring funds, as an ideal budget support mechanism. Applying these principles to EU development aid policy towards fragile states in Africa requires a full reassessment and restructuring of aid governance. EU aid governance is dominated by member state agencies and, as the Paris Declaration recognizes, suffers from fragmentation and lack of coordination, high transaction costs to governments with limited administrative capacity, and inadequate monitoring, evaluation and learning. Nevertheless, building on the expertise of the existing agencies and following the five principles, better structures of aid governance are possible.

²⁶ The Paris Declaration and the Accra Agenda emphasize the importance of ownership (developing countries must set their own strategies for poverty reduction, improve their institutions and tackle corruption), and alignment (donor countries should align behind these objectives and use local systems).

²⁷ According to Easterly and Pfutze’s (2008) study of 31 bilateral agencies and 17 multilateral agencies “the probability that two randomly selected dollars in the international aid effort will be from the same donor to the same country for the same sector is 1 in 2,658 .

²⁸ Collier has also emphasized the need for a more competitive structure of service agencies (he calls them independent service authorities; see Bold, Collier and Zeitlin (2009). He bases his argument on the complexity of allocating and monitoring aid funds: “My argument is also based on the need to mitigate commitment problems. He sees them as national or local service authorities, I see them primarily but not exclusively as multilateral service aid agencies operating in many countries”.

Some Sub-Saharan African fragile countries need mainly to catch-up on human development indicators, while others need to build credible state institutions. Similarly, most of them need to rely more extensively on civil society. Some are in conflict or postconflict and need military assistance. And some need first to fight HIV/AIDS or malaria. All need to enhance their human capital and empowerment, with a particular focus on educating women, to increase family welfare, and young men, to reduce the risk of social unrest and illegal activities.

Once the priorities are set, the EU should make credible long-term policy and budgetary commitments, without interfering with state sovereignty. Such commitments would allow fragile states to lengthen their time horizons for policy formulation and implementation. Monitoring and peer review mechanisms are also crucial for reaching the developmental goals and enhancing resilience.

Moving from priorities to specific prescriptions and guidelines for intervention requires deeply rooted knowledge of local conditions. Detailed policy prescriptions, to have an impact, must be matched by knowledge of the local context. Furthermore, the EU has to speak with one voice and accept that state-building and social cohesion in Africa are long-term processes, that can take different forms at any point in time and require constant attention and the right support on the ground.

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ANNEX

1. BACKGROUND PAPERS FOR THE EUROPEAN REPORT ON DEVELOPMENT 2009

Allen, F., and G. Giovannetti, The impact of the 2008-09 financial crisis on fragile countries in Sub-Saharan Africa.

Aryeetey, E., The global financial crisis and domestic resource mobilization in Africa.

Bagayoko-Penone, N., Multi-level Governance and Security: the Security Sector Reform Process in the Central African Republic.

Barnett, M., State Fragility, the Peacebuilders' Contract, and the Search for the Least Bad State.

Berman, N. and Martin, P., The Vulnerability of Sub-Saharan Africa to the Financial Crisis: The Case of Trade.

Bertoli, S., and Ticci, E., The Fragile Consensus on Fragility.

Carbone, M., Desperately Seeking Policy Coherence: Aid and Security in the Development Policy of the European Union.

Collier, P., The Political Economy of Fragile States and Implications for European Development Policy.

Collier, P., and Venables, T., Natural Resources and State Fragility.

Faria, F., and Sherriff, A., EU Policies to Address Fragility in Sub-Saharan Africa.

Fennell, S., State Fragility and African Agriculture.

Giovannetti, G., and Velucchi, M., African Financial Markets: A Spillover Analysis of Shocks.

Guillaumont P., and Guillaumont Jeanneney, S., State Fragility and Economic Vulnerability: What is Measured and Why?

Harcourt, W., Gender and Fragility: Policy Responses.

Harttgen, K. and Klasen, S., Fragility and MDG Progress: How Useful is the Fragility Concept?

Iapadre, L., and Luchetti, F. Trade Regionalisation and Openness in Africa.

Kaplan, S., Enhancing Resilience in Fragile States.

Khan, Z., Gender Responsive Budgeting.

Mold, A. and Prizzon, A., Fragile States, Commodity Booms and Export Performance: An Analysis of the Sub-Saharan African Case.

Naudé, W., Africa and the Global Economic Crisis: A Risk Assessment and Action Guide.

New Faces for African Development, various authors, Contributions from the poster session at the ERD Accra Conference, 21-23 May 2009.

Nkurunziza, J., Why is Burundi's Financial Sector Not Development-Oriented?

Nyarko, Y., EU Policies and African Human Capital Development.

Oduro, A.D., Adverse Shocks and Social Protection in Africa: What Role for Formal and Informal Financial Institutions?

Platteau, J.P., Political Instrumentalisation of Islam, Persistent Autocracies, and Obscurantist Deadlock.

Pouligny, B., State-society relations and intangible dimensions of state resilience and state building: a bottom-up perspective.

Reynal-Querol, M., Fragility and Conflicts.

Rocha Menocal, A., State-building for Peace - A New Paradigm for International Engagement in Post-Conflict Fragile States?

Tschirgi, N., The Security-Politics-Development Nexus: The Lessons of State-building in Sub-Saharan Africa.

Vennesson, P., Büger, C., Coping with Insecurity in Fragility Situations.

Verdier, T., Regional Integration, Fragility and the Institution Building: An Analytical Framework Applied to the African Context.

2. THE CONSULTATIVE PROCESS OF THE EUROPEAN REPORT ON DEVELOPMENT 2009

The consultative process of the European Report on Development 2009 included the following seven events:

1. Workshop on Development in a context of fragility Focus on Africa, Brussels, Belgium, 6 February 2009.
2. Workshop on Food crisis and the development potential of the agricultural sector in fragile countries, Cambridge, United Kingdom, 17-18 March 2009.
3. Workshop on Transforming Political Structures: Security, Institutions, and Regional Integration Mechanisms, Florence, Italy, 16-17 April 2009.
4. Conference on The challenges of fragility to development policy, Barcelona, Spain, 7-8 May 2009.
5. Conference on Financial markets, adverse shocks and policy responses in fragile countries, Accra, Ghana, 21-23 May 2009.
6. Conference on Moving Towards the European Report on Development 2009, Florence, Italy, 21-23 June 2009.
7. Conference on Overcoming fragility in Africa: ERD Policy recommendations, Brussels, Belgium, 4 September 2009.

Volume 1B documents the consultative process by providing the final programmes, the lists of participants, and for the events nos. 1 to 5 also the conference reports. Conference presentations of the events nos. 2-5 and podcasts from the events nos. 3, 4, and 7 can be downloaded from the project website, <http://erd.eui.eu>.

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