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.

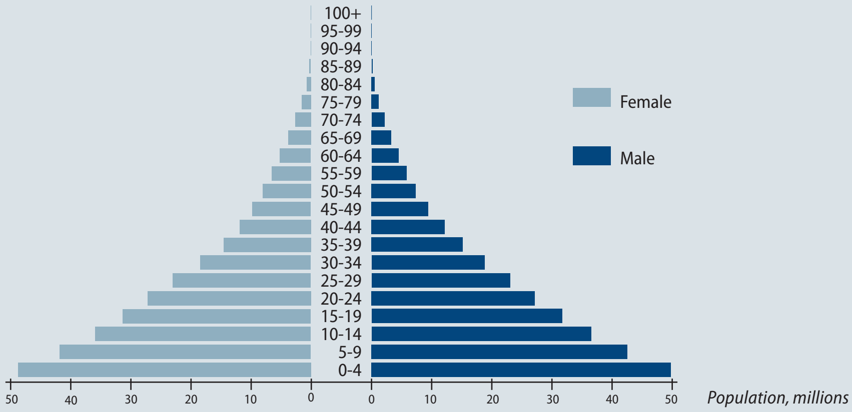
Low population density. Most fragile countries are characterised, on average, by a very low population density: 15 out of 29 countries have fewer than 40 inhabitants per square kilometre, while the population density in nonfragile countries stands at around 84. The population is young and increasing (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).

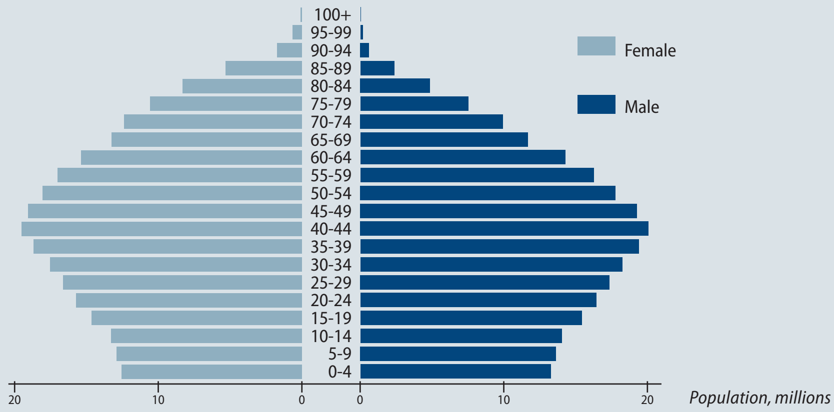
[3] Aid agencies and international institutions have a much more limited range of actions, often confined to short-term remedial measures and, because of their institutional duties, to one specific issue. See the background paper by Collier (2009a) in volume 1B on this point.

[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.

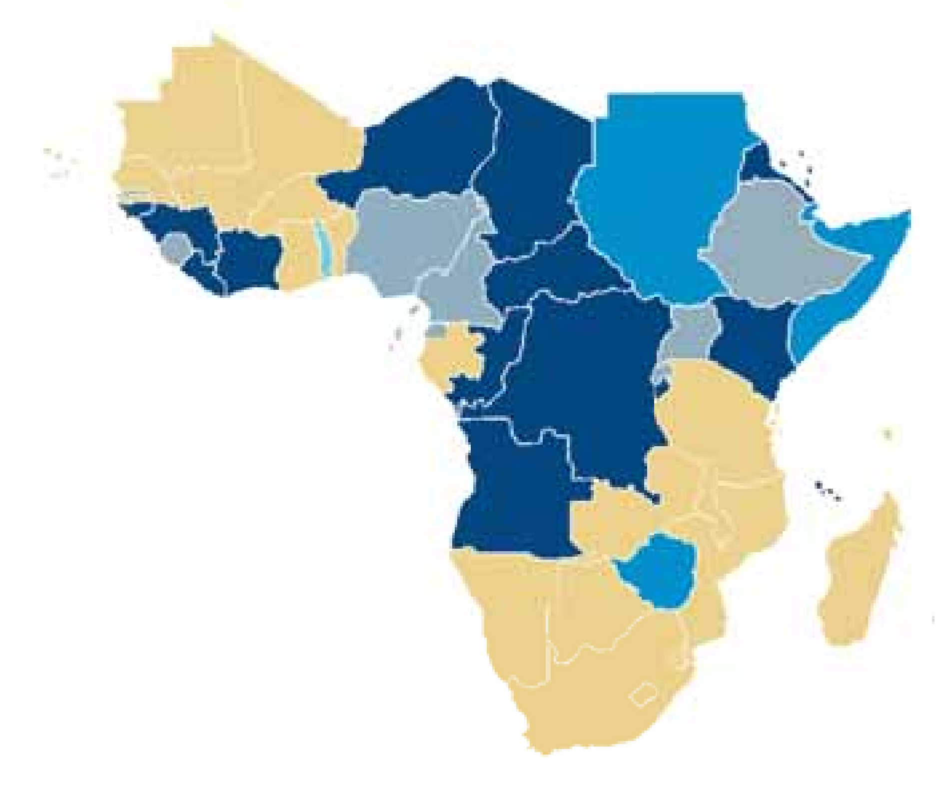
The economic and financial crisis came on top of a period of high and volatile food and fuel prices. Their spikes through mid-2008 put food-importing and oil-importing Sub-Saharan African fragile countries under severe stress, depleting their foreign exchange reserves and making it difficult to pay for 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.

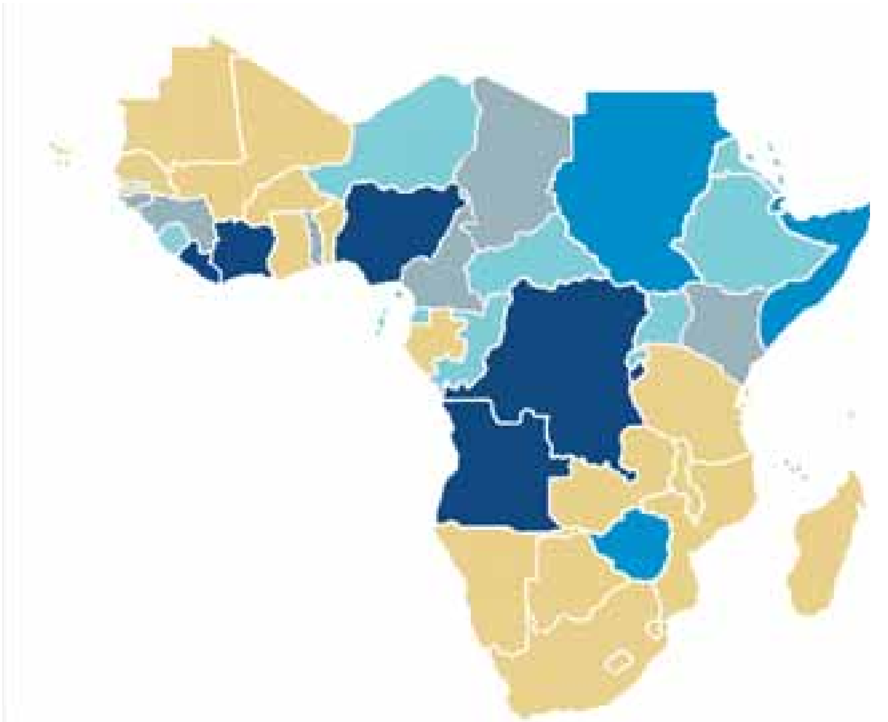
Fragile countries were hit hard, but the impact is highly heterogeneous across countries; as a result there is not higher vulnerability for fragile countries. What is much lower is the capacity to recover from shocks.

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



- Nonfragile
- Fragile without data
- High resilience
- Medium resilience
- Low resilience

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



- Nonfragile
- Fragile without data
- Low vulnerability
- Medium vulnerability
- High vulnerability

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, socialcohesion 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.