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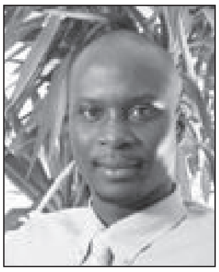
The global financial crisis: risks for fragile states in Africa



Timothy Othieno

'Economic and social instability go hand in hand. The global financial crisis poses a serious threat to global peace and security, so donors need to step up their aid commitments to fragile states, particularly in Africa'

History shows that political instability and recession do not operate far apart. Since the end of the Cold War, levels of instability in Africa have subsided, when compared to the preceding decades and, by and large, the level of political violence is at its lowest since the 1960s. As Figure 1 shows, worldwide economic and social stability – and instability – tend to go hand in hand. The question that needs to be asked today is: will the current global financial crisis undo this trend, and what does this crisis mean for fragile states, particularly those in Africa?

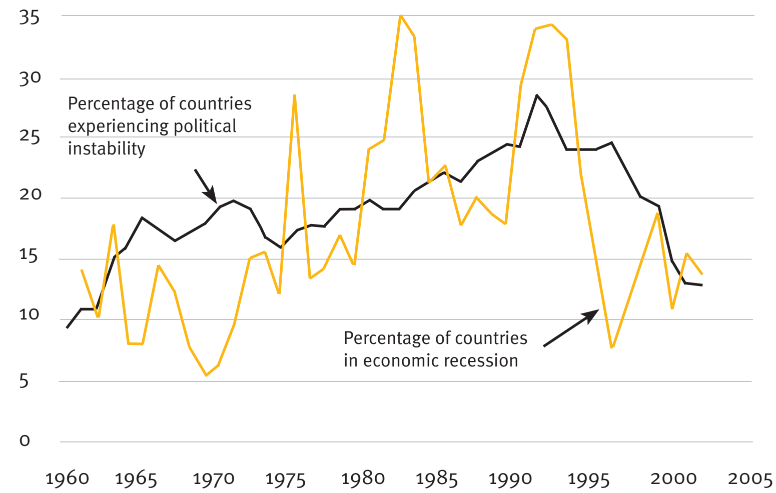
It hardly needs saying that the crisis is, inevitably, hitting fragile states. It has the potential to create the conditions whereby policy disputes spiral into instability – violent or non-violent – such as criminal activity and riots, posing serious threats to regimes and governments that are already weak. We have already witnessed an increase in violence in fragile countries that have been hit hard by the recession.

In addition to the direct effects of the financial crisis, many countries are also reeling from the challenges arising from high food and fuel prices that have exacerbated the already fragile nature of African states. This situation has led to public unrest over the past year in Burkina Faso, Cameroon, Mozambique and Niger. In Cameroon, food riots in February this year saw 24 people killed and over 1,600 people arrested in demonstrations over high tariffs on food, while in Mozambique, clashes between police and rioters in late 2008 left four people dead and more than 100 with serious injuries.

The financial crisis has also contributed to an increase in criminal activity. For example, the surge in the cases of maritime piracy in the Horn of Africa has been attributed to high levels of poverty and high costs of living that have seen people turn to piracy, as remittances decline and the fragile Somali economy grinds to a halt.

There are also fears that the drop in global commodity prices could see African countries that rely on their natural resources experiencing reduced 'rents' from those resources. And as 'rents' decline, their current regimes may

Figure 1: Riding the waves: recession and instability



Political instability includes regime collapse, civil wars, or genocide; recession is annualised negative GDP growth. Denominator varies by year.

Source: Desai, R. (2009) 'Understanding and Addressing Political Instability', The G-20 London Summit 2009: Recommendations for Global Policy Coordination, Washington, D.C. : Brookings Institution.

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become increasingly repressive in the face of public unrest. Over the past year, the ruthlessness of the regimes in both Cameroon and Zimbabwe in response to such unrest over low wages and economic hardships is telling.

It is clear that the convergence of the effects of the financial crisis, high food and fuel prices is likely to have a heavy impact on the fragile states that are least able to mitigate against them. For this reason, in March 2009, the International Monetary Fund (IMF) concluded that 22 of the world's poorest nations, most of them regarded as fragile states, will need as much as $25 billion in additional funding this year, as the 'third wave' of the financial crisis sweeps into all corners of the world, and especially sub-Saharan Africa. But will this aid materialise?

Backtracking on aid?

The recent G-20 Summit in London brought together world leaders to address the challenges posed by the financial crisis and, more specifically, to stabilise global financial markets and restore growth levels in the wake of a global recession. The Summit earmarked $50 billion to support developing countries in the face of the crisis.

However, this came on the heels of attempts by individual donor governments to intervene in their own economies, first and foremost, by bailing out their banks and introducing fiscal stimulus packages. While the aim has been to avert a global recession, one result may well be a re-evaluation of development aid budgets in favour of domestic priorities. Such 'reprioritisation' could have a severe impact on African states, as many rely so heavily on foreign aid.

Until late last year, serious cuts in development aid were not on the agenda of donor countries. However, there are now fears that more donors could follow the example of the Italian, Irish and Canadian governments who have reduced their aid budgets in recent months in the face of the crisis. This is, very clearly, a major challenge for African states. Aid cutbacks are bound to have a substantial and negative effect on current programmes to reduce poverty and boost development.

Even without decreased aid flows, African economies already face difficulties in the productive sectors, as shown by the downward revision of growth targets, declining export earnings and trade credits, as well as reductions in remittances from the African diaspora, and increasing unemployment (Massa, I. and D.W. te Velde; 2008; European University Institute, 2009). Any reduction of foreign aid at this time would, undoubtedly, exacerbate the fragile nature of many African states and reduce their ability to meet the Millennium Development Goals (MDGs). Faced with reduced aid flows, aid recipients would experience sharp declines in income levels, an increased inability to pay civil service employees and security forces, as well as a decrease in the capacity of the state to provide basic goods and services. The danger of such developments leading to social unrest or even conflict should not be underestimated.

Such examples bring into sharp focus the seriousness with which this crisis needs to be addressed by both African countries and donors. On the one hand, African states will have to work extremely hard to raise revenue to meet aid shortfalls and address public concerns. On the other hand, donors and international financial institutions need to focus on those fragile states in Africa because of the potential instability and the negative effect on governance emanating from the effects of the crisis. Donors need, therefore, to target development aid to high risk countries, such as fragile states.

It is imperative that OECD-DAC donors pay close attention to African states in this global financial crisis. They need to maintain, if not step up their aid commitments to African states to counter the effects of the crisis that has the potential to exacerbate state fragility in Africa. For this situation does not bode well for the global fight against poverty, and, at the same time, poses a serious threat to global peace and security.

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