



# Economic Drivers of Conflict and Cooperation in the Horn of Africa

## A Regional Perspective and Overview

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### Summary points

- Among the drivers of conflict in the Horn of Africa economic motivations have been ubiquitous and pervasive in prompting and sustaining conflict. At other times economic drivers have exhibited a potential for peaceful cooperation. An understanding of their role and relationship with other forces of change is essential.
- Conflict in the Horn frequently has economic impacts across national borders. This paper identifies four major zones of borderland insecurity in which informal trade as much as formal relationships can both sustain conflict and offer potential for post-conflict cooperation.
- Underlying the various sub-regional conflicts are a number of recurrent economic themes, including access to sea ports, livestock as a basis for livelihoods, energy-related issues, the wider impact of localized conflict, drought, land rights and remittances.
- The establishment of permanent peace can only be built upon a common set of values reflecting equity, tolerance and an acknowledgment of the potential of traditional institutions in entrenching community cohesion. Only on such a foundation will specific programmes be assured of harnessing those economic drivers necessary for their success.

## Introduction: the importance of the economic dimension

The Horn of Africa is one of the most conflict-prone regions in Africa. Despite changes of regime and international efforts to broker peace agreements, the countries of the region experience consistently high levels of violence, within and across borders. The incongruence between the legacy of colonial boundaries, ecological zones and cultural affinities peculiar to the region often means that disputes in any one country have political and economic significance beyond their own local sphere. Among diplomats there is a growing recognition that the interconnectedness of conflicts in the region, and their causes, renders their resolution particularly complex and challenging.

Disagreements over territorial integrity, cultural nationalism and internal factionalism all have economic elements that either fuel the conflict or are critical to its outcome, and that are thereby in a continual process of adaptation and reformulation.

This briefing paper seeks to expand this debate by highlighting some of the economic drivers of conflict and cooperation that are present in the region. By ‘economic driver’ is meant the frequently overlooked part played by economic motivation and command over resources in causing or fuelling conflict and in its potential for securing sustainable post-conflict stability. It is therefore a key dimension of that combination of social forces which together tend to drive all conflict. The degree to which economic dynamics contribute to conflict thus depends upon a range of overlapping contextual variables such as previous history of conflict in a region, the strength or fragility of political institutions, poverty levels,

the agro-ecological environment and the nature of resource endowment and its distribution among communities. One consequence of this is that, in the Horn of Africa, as elsewhere, economic drivers do not always manifest themselves directly but are often concealed in the politics of nationalism, of religious ideology, or of struggles between elites. Disagreements over territorial integrity, cultural nationalism and internal factionalism all have economic elements that either fuel the conflict or are critical to its outcome, and that are thereby in a continual process of adaptation and reformulation.

Yet to acknowledge this is also to admit that, given appropriate and equitable economic policies and incentives, economic drivers must also underpin the processes which ensure peaceful sustainable post-conflict development. This point is returned to in the conclusion.

## Economic drivers in the Horn: a regional mapping

The countries of the Horn of Africa – Ethiopia, Somalia, Djibouti, Eritrea and Sudan – form a regional system in which conflict within any one of the countries, and between any two, has tended to have significant reverberations among the others. The economic dimensions of this are often, though not exclusively, manifested in substantial informal or illegal cross-border trading and other activities, which may take advantage of long-established traditional trade routes. A brief example is the way in which the conflict in south central Somalia, rooted in its own economic drivers, has diverted livestock exports from Somalia and its Ethiopian hinterland away from the sea ports of the region to cross-border trekking into northeast Kenya, while at the same time opening up a reverse trade not only in clothing and household goods but also in small arms. There are also significant numbers of displaced people fleeing across the border to Kenya. Such extended ‘zones of insecurity’, where national domestic problems of security have complex borderland repercussions which increase regional insecurity, are reflected with variations around the Horn. Four of these, shown in the map on page 16, have particular significance and are discussed below.

### (1) Southern Somalia – NE Kenya – SE Ethiopia

Most analysis of the history and collapse of the state in Somalia identifies a drive to control resources as underlying everything else, most significantly in the productive areas around the Wabi Shebelle and Juba rivers where the struggle to occupy or control productive land and plantations (bananas and sugar cane), combined with the proximity of Mogadishu, has driven the politics of this region. As Alex de Waal has argued,<sup>1</sup> what is essentially a class struggle over control of productive resources has been expressed through clan identities, each competing to establish a power base. The collapse of the state after the fall of Siad Barre's regime in 1991 allowed various sub-clan groups (often pastoralists transitioning to agro-pastoralism) and warlords to occupy these lands. Many original inhabitants migrated to urban areas, mainly on the coast, which have also been forcibly occupied by the same or other locally powerful groups, establishing an ownership that will inevitably be challenged in any return to peace.<sup>2</sup>

From as early as 1994 many of the urban incomers were stabilizing their local situation under Shari'a law, driven to a great extent by the need to allow merchants to operate and have access to the ports. In 2005 a coalition of these clans, militia leaders, civic groups and Islamists was formed. This then split in a dispute initially over control of the El Ma'an port in Mogadishu. It led to the emergence of the United Islamic Courts (UIC), aided by its armed youth wing al-Shabaab, as the dominant power in Mogadishu and most of south central Somalia for a brief period of stability during the second half of 2006.<sup>3</sup>

It is interesting that although access to the port was the proximate driver of this conflict, the outcome was a cooperative agreement across the entire capital city which, in reflecting its foundation in the Islamic courts, did not

correspond to any Western model of an urban economy. The subsequent defeat of the UIC by Ethiopian forces, drawn in to the conflict partly in response to Somali irredentist claims by some UIC leaders and partly to control the scope for support to domestic insurgent groups such as the Ogaden National Liberation Front (ONLF) and Oromo Liberation Front (OLF), and their later withdrawal, created a vacuum which has allowed al-Shabaab to re-occupy large parts of the centre and south. In the meantime the arable agricultural potential of the area has continued to be thwarted by a combination of widespread insecurity, prolonged neglect of its infrastructure, and repeated change of occupancy. Its earlier significance as a driver of conflict has never disappeared and will re-emerge for negotiation in any future peace settlement.

The other major traditional activity in southern Somalia, livestock trade for export, has survived better, since it is largely informal and sourced from local and neighbouring pastoralist communities of the Somali region of Ethiopia. Conflict has meant that trading routes to the sea-ports of southern Somalia for shipping on to Saudi Arabia, Yemen and the Gulf states have been disrupted and many supplies are diverted overland to the northern Kenya markets. The ban in September 2000 by Middle East countries on imports of live animals from the Horn following an outbreak of Rift Valley fever has been another contributory factor. Many Somali traders and brokers displaced by conflict have joined others already operating in NE Kenya and in Nairobi, handling substantial volumes of livestock (c.120,000 head per annum or almost one-quarter of Nairobi's needs).<sup>4</sup> Profits are partly invested in land and property in Nairobi and partly either informally wired back to contacts in Somalia (the *hawala* system), or used to purchase goods for shipment to the Somali border and then on to agents in Somalia.<sup>5</sup> This

1 Alex de Waal, *Class and Power in a Stateless Somalia*, Social Science Research Council, February 2007.

2 World Bank, *Conflict in Somalia: Drivers and Dynamics*, January 2005; Afyare Abdi Elmi and Abdullahi Barise, 'The Somali Conflict: Root Causes, Obstacles, and Peace-building Strategies', *African Security Review* 15,1 (2006): 32–54, Institute for Security Studies; Dustin Dehérez, *The Scarcity of Land in Somalia: Natural Resources and their Role in the Somali Conflict*, Bonn International Centre for Conversion, Occasional Paper III, April 2009.

3 Cedric Barnes and Harun Hassan, *The Rise and Fall of Mogadishu's Islamic Courts*, Africa Programme Briefing Paper, Chatham House, April 2007; Ken Menkhaus, 'Somalia: They Created a Desert and Called It Peace(building)', *Review of African Political Economy* 36, 120 (June 2009): 223–33.

4 Peter D. Little, *Unofficial Trade When States are Weak: The Case of Cross Border Commerce in the Horn of Africa*, Research Paper 2005/13, WIDER, April 2005.

5 Peter D. Little, *Unofficial Cross-Border Trade in Eastern Africa*, Food and Agriculture Organization, March 2007; Thomas Awuor, *Review of Trade and Markets Relevant to Food Security in the Greater Horn of Africa*, special report by the Famine Early Warning Systems Network (FEWS NET), USAID, June 2007.

system, based on networks of trust in the absence of banks, facilitates the flow of goods in each direction without the need for cash to be physically carried back and forth. Final payment is usually in Somali shillings or US dollars and the entire process is an example of a well-established driver of informal cooperation across local borders. However, this trade in livestock, being dependent on overland supply chains, is prone to disruption where routes pass through volatile conflict zones, and is subject to a range of unofficial fees, bribes, commissions and protection charges.

A similar system applies to khat exports from the Meru region in Kenya to southern and central Somalia, whereby Somali and Kenyan agents cooperate in shipping the khat harvests of Meru smallholders by air and overland.<sup>6</sup>

## (2) Somaliland – Ethiopia – Djibouti – SE Eritrea

The wedge of the Ethiopian Ogaden cutting into the centre of Somalia effectively turns the north and south of the country into separate economies – a feature which has facilitated the subsequent appearance of Somaliland as a separate self-governing region. The primary economic driver here is again livestock trade for export. Its dominance has given traders and merchants, predominantly of the Isaaq clan, a key role in eventually stabilizing the political situation. The economic viability of Somaliland depends heavily upon its traditional livestock trade, of which some 50–60% is estimated to originate in Ethiopia, mostly in informal cross-border trade. It also generates port duties for exports and imports. These contribute to over half the small revenue of the Somaliland government, which in 2008 totalled only \$51m. Much of the remainder of the government's budget depends on international aid committed to the Reconstruction and Rehabilitation programme. The private sector also benefits from substantial remittances from the Somali diaspora community around the world.

In the northeast of Somalia the autonomous region of Puntland is also heavily dependent on livestock

export, which possibly contributes around 40% of GDP and traditionally draws on supplies from central Somalia and the eastern Ogaden. These, together with seafood exports, have rendered the port of Bossaso a prime resource for rival clan and sub-clan groups to control. There is also some evidence that in the past some non-food imports were smuggled to Ethiopia for re-entry to Somaliland via the former refugee town of Hartasheikh (only 72 km from Jijjiga) in order to avoid port charges in Berbera (though tightening of border controls may have reduced this). Many among the substantial numbers of refugees fleeing the violence of the south get caught up in the human trafficking across the Gulf of Aden to Yemen. Puntland is also associated with the location of bases for piracy in the Gulf of Aden and Indian Ocean, a phenomenon not only arising from the general political situation but also linked to what might be termed the economic drivers of diminishing livelihoods of seaboard communities, international fishing rights and licences.

Somaliland is very close to the Ethiopian urban centres: the distance by road from Jijjiga to Hargeisa is 143 km, and to Berbera 301 km, while Harar is 404 km from Berbera. These small distances mean that formal and informal markets in this region are likely to be more integrated in terms of better communications and relative price information, allowing comparisons between alternative transaction costs, facilitated by relatively good, and unregulated, mobile phone and internet facilities in Somalia.

Although Somaliland is generally noted for its relative stability, this complex corner of important trade routes is potentially volatile while at the same time having a potential for regional cooperation and integration that should be nurtured. These routes will become increasingly competitive with one another as Berbera strives to draw more of Ethiopia's trade away from Djibouti. At present the important benefit which Somaliland obtains from trade with Ethiopia is derived largely from informal cross-border activities, from which the Somaliland government extracts income

<sup>6</sup> David Anderson, Susan Beckerleg, Degol Hailu and Axel Klein, *The Khat Controversy: Stimulating the Debate on Drugs*, Berg Publishers, 2007.

through port fees but which tend to evade Ethiopian dues. Despite a history of some tolerance towards this informal trade on the Ethiopian side (partly to nurture good relations with Somaliland), incipient tensions were reflected in the Ethiopian clampdown on Hartasheikh markets in 2002, although these activities tended to reappear in Wajale on the Somaliland side.

Given that the difference between the free market environment currently prevailing in Somaliland and the more regulated markets of Ethiopia is likely to prevail for some time, the incentives for illegal cross-border trade are unlikely to diminish. This also raises the interesting question of the degree to which the communities that emerge around the growth of informal trade along new or existing routes as a direct or indirect result of conflict will survive over the longer term. The more Ethiopia succeeds in regulating trade, however, and thus in integrating its Somali Region more fully into the rest of its economy, the greater will be the competition faced by Berbera from Djibouti, in due course Assab and eventually even Bossaso.

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Trade in khat is also of major importance to this region, with substantial domestic and international markets. To the degree that it can be regulated, this trade provides an important tax and foreign exchange source for governments. In Ethiopia the regional government of Harar receives around 40% of its income from the trade and the city of Dire Dawa 60%, while some 16% of Djibouti's total tax revenue comes from khat.<sup>7</sup>

As the principal port for Ethiopian exports and imports, Djibouti holds a critical position, but it is not

without threats, which include high dependence on that same Ethiopian trade and competition from Berbera. Also important are its intermittent northern border dispute with Eritrea, the ambivalent presence of substantial French and US military communication and intelligence bases, and a hinterland of Afar and Issas pastoralists who have largely been bypassed by the economic growth that is drawing in labour of all descriptions from the surrounding regions. Discontent, spread across the entire Afar region, over issues of settlement, grazing and water rights, employment and unequal distribution of national resources, regulation of the salt and camel trade all provide potential for the currently small Afar protest movements to grow.

### (3) Eritrea – Ethiopia – Sudan

The gradual 'de-integration' of trade between Ethiopia and Eritrea during the years immediately preceding their 1998–2000 war provides an unusual case of an economic driver of conflict.

Historically, the pattern of trade between the two countries was highly integrated: the products of a small manufacturing and processed foods sector – often (until 1974) owned by Italian immigrants – were exchanged for agricultural produce from Ethiopia, while the bulk of Ethiopian exports went to the rest of the world through the Eritrean ports of Assab and Massawa or by train to Djibouti. The closure of the border after 1998 then pushed the majority of Ethiopian trade towards Djibouti. In 1997, Assab was handling 80–85% of Ethiopia's international traffic, with only 15–20% passing through the port of Djibouti. However, following the outbreak of hostilities between Eritrea and Ethiopia, traffic from Ethiopia increased – from 1.7 million tonnes in 1997 to 3.1 million tonnes in 1998, and 4.2 million tonnes in 2002.

The degree to which diverted trade may return to Eritrean ports when the border with Ethiopia eventually reopens will depend upon a number of factors, including the direction and degree to which the

<sup>7</sup> Axel Klein, Susan Beckerleg, Degol Hailu. 'Regulating khat – dilemmas and opportunities for the international drug control system', *International Journal of Drug Policy* (2009); Anderson et al., *The Khat Controversy*.

### Box 1: Ubiquity of the market

It is often overlooked that throughout the Horn there are long-established extensive networks of local markets and merchants, often clan-based or of immigrant descent from areas such as Yemen, Lebanon, Armenia, Italy, Greece, and with overlapping links to the wider region and beyond. Market forces are therefore pervasive and universal, reaching out even to remote livestock rangelands, disregarding national boundaries but subject to transaction costs of different types and to local monopolies and cartels.

In most regulated situations a parallel unofficial market will exist, such as informal cross-border trade, whether it is in legal, illegal or counterfeit goods. Thus, if a demand exists, backed by purchasing power, then a supplier will appear relatively quickly, even in conflict zones. In these ways, a high degree of informal economic interconnectedness exists across the entire Horn region, underpinning the ability of market forces to adapt and connect across borders, and of their participants to establish mechanisms of payment and receipt of goods which can function outside the formal sector, including the transfer of remittances.

This phenomenon is common to all regions in the Horn and is fundamental to the monetization of resources which oils the wheels of economic drivers of both conflict and cooperation. The role of merchants is therefore critical: at times some will arrange the supply of arms, ammunition and other logistic items to rebel groups, whose objectives they may support; at other times they will operate with their own private security forces. But their ultimate common interest is in expanding peaceful markets, and on a number of occasions in the Horn local merchants have cooperated in order to assist political leaders in bringing about civil order and a degree of economic security for the community. Examples have occurred in the port city of Berbera and in the port districts of Mogadishu. There is thus a community resource here whose *modus operandi* involves communication, trust and cooperation along supply chains, but whose interest in socially beneficial outcomes of economic drivers also depends on relevant incentives and a supportive institutional environment.

economic infrastructure of Tigray will have developed and the availability of finance to upgrade the harbours of Massawa and Assab. In the meantime, Djibouti's interest will be to ensure that competition from Berbera in Somaliland as a entrepôt for Ethiopian trade is minimized. In October 2009 Berbera port fees were said to be up to 40% lower than those in Djibouti, though this will also reflect the discouraging effect of poor roads through to Ethiopia. An additional ingredient to these intra-regional economic dependencies, while the conflict is unresolved, is Eritrean government support for armed opposition groups in Somalia and Ethiopia, with the objective of weakening Ethiopia's economic and political hegemony in the region.

The conflict with Ethiopia also highlights the importance to Eritrea of maintaining supply routes through Sudan at the border (which is only 45 km from Tesseney). From here cheaper sources of basic grains, vegetables and fruits for distribution in the west of the country may be imported, as an alternative to shipment to Massawa from beyond the Arabian peninsula. Likewise, the proximity of the western Sudan cities of Kassala and Gedaref offers markets in themselves of over half a million people for Eritrean exports. With the investment which is likely to follow a change of regime in Eritrea, this could also be one stimulus for a reversion to the manufacturing industrial base of the past. Yet such potential for border trade is threatened by periodic instability connected with the Eastern Front in Sudan, which caused the 605 km long eastern border with Eritrea to be closed from 2002 to 2006. The presence of hundreds of thousands of Eritrean refugees in Sudan<sup>8</sup> (often now second-generation) offers opportunities, as an extension of the domestic market. But it is also a potential threat, should their return in large numbers put excessive pressure on Eritrean public services.

#### (4) Ethiopia – Sudan – N Uganda – NW Kenya

Ethiopia's border with Sudan is 1,606 km long and its numerous crossing points collectively have a long

<sup>8</sup> According to the US Committee for Refugees and Immigrants, in 2007 there were 230,000 Eritrean refugees in Sudan.

history of transborder trade and intra-regional migration. Some, such as Geissan, Kurmuk and Gambella, suffered from the conflicts in Sudan and Ethiopia during the second half of the twentieth century, but retain their potential as minor development corridors when long-term peace comes to the region. In the northwest corner of Ethiopia the agriculturally rich Setit–Humera region is on a road link from Kassala in Sudan to Gondar in Ethiopia and hence to the markets of central Ethiopia, as is the route from Gedaref via Metema to Gondar. There is some indication that Ethiopian trade items such as coffee and the local cereal crop teff are taken by these routes into Sudan, to be informally exported into Eritrea via the border near Tesseney. Otherwise most trade comprises livestock and agricultural produce from Ethiopia to Sudan and small manufactured and electrical goods in the other direction. Much of it, especially livestock, is informal and mainly supplied from local Ethiopian sources, though there is also some camel trade from northeast Ethiopia to Sudan.

In addition to trade there is an informal process of migrant labour from Ethiopia during the harvest season in the Gedaref region of Sudan. Although very small in comparison with Ethiopia's trade through Djibouti, the activities here are of considerable importance to local communities. Both these routes are also on NEPAD's proposed development corridors linking Sudan to Ethiopia and Djibouti, as well as to Ethiopia and Eritrea (via Humera to Barentu).<sup>9</sup> Upstream on the Tekeze river, closer to Mekele, the capital of Tigray, the major Chinese-backed hydro-electric project has potential for exporting electricity to neighbouring countries. It will be facilitated by a new transmission line between Bahr Dar and Metema connecting the Ethiopian and Sudanese power grids, due to be completed in December 2011. This is part of an energy security programme that includes the projected dam at Gibe on the Omo and that will reduce dependency on imported oil (though Sudan may remain an important oil-supplying partner).

Further south the raising of Asosa and Gambella to the status of regional capitals in the post-1995 Ethiopian federal structure gives their traditional cross-border links to Sudan additional significance. In the case of Gambella inter-communal rivalries and conflicts over land in Sudan, compounded by the civil war before the Comprehensive Peace Agreement (CPA) of 2005, had caused many Nuer people to move across the border to Gambella region, many to settle and many others to seek protection in refugee camps. During the Derg period in Ethiopia this area also saw a certain amount of military activity involving Sudanese, Derg and EPRDF (Ethiopian People's Revolutionary Democratic Front) forces.<sup>10</sup> Severe tensions continue on the Sudan side where numerous clashes among sub-clans reflect not only a history of competition for land and resources in the arid regions of Jonglei and Eastern Equatoria but also political pressures arising from the relations of minor tribes to the Sudan People's Liberation Movement/Army and the latter's fractious relationship with the National Congress Party in Khartoum.

The working out of the CPA and possible independence of a landlocked Southern Sudan is likely to impact significantly on its borders with southwest Ethiopia, northwest Kenya and northern Uganda as the government of Southern Sudan will seek to build on existing trade links with Ethiopia and Uganda. In July 2008, for example, the Ethiopian government agreed to allocate 50% of its cement production for export to southern Sudan. Unresolved instability in northern Uganda and southeast Sudan from the LRA (Lord's Resistance Army), and problems on the Kenya border near Nadapal, will tend to favour a strengthening of Ethiopian trade connections. However, tensions over the Abyei oilfields and the division of these and other oil royalties between north and south Sudan<sup>11</sup> could spill over into the region; for example, they might generate a new flow of refugees, or Ethiopia might be

9 Report of NEPAD (New Partnership for Africa's Development), Eastern Africa Region, Ministers Meeting, 28 October 2003.

10 Wendy James, Donald L. Donham, Eisei Kurimoto, and Alessandro Triulzi (eds), *Remapping Ethiopia: Socialism and After*, James Currey, 2002.

11 Global Witness, *Fuelling Mistrust: The Need for Transparency in Sudan's Oil Industry*, September 2009.

12 As of 2003, some 80% (120,000 tonnes per year) of Ethiopia's oil came from Sudan.

### Box 2: The beneficiaries of conflict and their economic drivers

Armed conflict is intensely destructive of physical capital, livelihoods, lives and economic infrastructure, yet for some it brings benefits. The victors, of course, generally take control of the state and all its revenue-raising powers, but among this group and its allies, and even among the losers, there will be many who will have benefited during the course of conflict itself. As indicated in Box 1, certain merchants, brokers and traders will profit from delivering essential supplies to warring parties, and there will also be new entrants taking advantage of the opportunity to earn high-risk, short-term returns.

In civil wars, where there is mass displacement of population and no central state control or regulation, plus an absence of accountability, opportunities arise for militia leaders and local warlords to occupy portions of land or urban real estate, to extract protection money and to tax the passage of people and goods along roads and through ports. The term 'warlord' is imprecise, often a journalistic convenience, and covers a range of actors from the outright dispossessed and disaffected to those with a pre-existing position in the local community, and who survive on a mixture of force and patrimony with an interest in prolonging conflict. It is a widespread phenomenon with a long pedigree,<sup>a</sup> and in the Horn of Africa has been most prevalent in Sudan and Somalia, though is prone to appear wherever power from the centre is weak. Many 'warlords' rise and fall or are absorbed by others in the course of conflict, from which a few may emerge as dominant within a locality or wider region. When this happens they will often seek to establish legitimacy as representatives and protectors of the particular clans, sub-clans or ethnic groups from which they emerged, with the object of acquiring respectability and as a means to ensure the permanence of their gains in the event of a move towards peace.

The field of armed conflict therefore contains many participants who are seeking economic gain from disruption, a number of whom, as their illicit empires expand, are also looking ahead to the longer-term legitimization of their acquisitions, by forming strategic alliances with those whom they regard as the likely winners. They are thus often apolitical in their allegiances. In some circumstances they are also the initial instigators of conflict.

<sup>a</sup> Antonio Giustozzi, *The Debate on Warlordism: The Importance of Military Legitimacy*, Crisis States Research Centre, LSE, October 2005.

seen to favour one side rather than the other with regard to oil imports.<sup>12</sup>

## Common themes and drivers between the zones

The preceding overview allows us to see the region as a whole, helping to identify important interdependencies and to trace the wider impact of localized and sub-regional conflict. In this section a number of common but critical economic drivers are identified, of which several will be present in any region at any one time.

### Access to the sea – Ethiopia and Southern Sudan

The conflict with Eritrea exposed Ethiopia's highly vulnerable dependence on other countries for access to the sea. Consequently, this issue alone cannot fail to dominate not only Ethiopian policies with its neighbours but also domestic economic policies such as the reduction of dependence on imported oil by accelerating development of hydroelectric power, implying

dam construction and control of watersheds. Furthermore, as Ethiopia is without direct access to the sea, it will only be able to maximize its bargaining power with any of its neighbours (all of which at present do have such access) by opening up the potential of its trade routes with them (such as over docking facilities in Djibouti for Ethiopian Shipping Lines). The greater the number of routes opened up along the long border with Sudan in the west (stimulated by recent formal talks), and the greater the scope for expanded formal and informal trade between Sudan and the western regions of Ethiopia (in small manufactures, textiles, food grains), the more likely it is that there will be some negative effects on the outlets in the east. Such trade diversion from one part of the region to another may be balanced by trade creation (i.e. resulting in a combined total greater than before), although the benefits of this may also come to the communities living along the same new routes. Similar strategic calculations would apply to land-locked Southern Sudan if it



wished to reduce dependence on Northern Sudan.

On the northeastern side of Ethiopia an eventual settlement with Eritrea will give Ethiopia a choice of sea outlets in Assab, Berbera and Djibouti (subject to modernization and upgrading of the first two), thus minimizing the costs of disruption and improving Ethiopia's negotiating advantage in the terms of contracts. The Puntland port of Bossaso is another player; trade discussions took place at government level between Puntland and Ethiopia in June 2009. It will be in the interests of these neighbouring port authorities to collaborate in some sort of regional forum in due course, in order to control any potential for conflict, and to play a part in raising the development profile of this regional economy as a whole.

#### Regional impact of localized conflict

Whether or not a multiplicity of intra-regional trade routes in the Horn will minimize the potential for conflict depends also on better control and management of the multiple causes of internal disputes, large and small, including their economic drivers. Most of these conflicts have had spillover effects beyond their national boundary – through the flight of refugees, encouragement of illegal arms trade, scope for foreign support of opposition groups, closure of borders, increased public expenditure on the military in neighbouring countries for border controls, or diversion of regional aid budgets. Large parts of the region are also marked by recurrent localized tribal/ethnic disputes which are often driven by pressure on resources caused by drought, encroachment on grazing lands by agriculturists and agro-pastoralists and land-use entitlement issues.<sup>13</sup> Some 80% of the IGAD region consists of arid and semi-arid lowlands, receiving on average less than 400 mm of rainfall per year.<sup>14</sup> Initially these

may have limited impact beyond the local area, though they can stimulate refugee movements across neighbouring borders. But if left to fester they can be potential seedbeds for the mobilization of regional opposition, possibly using cross-border bases, which then result in a diversion of military resources in armed response by government and a setback to the potential for new economic investment and development. Such disputes are vulnerable to support and manipulation by unfriendly governments elsewhere in the region. Their nature has altered in recent decades owing to the influx of small arms, greater frequency of drought, and the collapse of traditional mediation methods as market-based motives have become more prevalent. The large numbers of sub-clans and minor tribal groupings in the extensive and pastoralist and agro-pastoralist areas of the Horn, which effectively cover a wide volatile swathe stretching around most of the southern and eastern peripheral lands, have a high propensity for conflict over land use and give them an importance greater than their population numbers would signify.

#### Livestock trade: quality, formal versus informal trade, centralization

Ethiopia contains one of the largest livestock populations in Africa but has a complex and only partially modernized marketing structure. Most supplies originate from smallholders selling a few head to raise cash for a specific purpose, and traders at different levels gradually assemble larger numbers for forwarding to municipal abattoirs and urban markets.<sup>15</sup> Quality is often poor. The formal procedures for exporting live animals involve considerable documentation and fees, and encourage the use of informal channels. Distances, poor communications and regulations also mean that

13 Abdurahman Ame, *Cross-border Livestock Trade and Small Arms and Conflict in Pastoral Areas of the Horn of Africa: Case Study from Southern Ethiopia and Northern Kenya*, International Association for the Study of Common Property, Eleventh Biennial Conference, April 2006; Tobias Hagmann, *The Political Roots of the Current Crisis in Region 5*, SSRIC, September 2007; Patrick Meier, Doug Bond and Joe Bond, 'Environmental Influences on Pastoral Conflict in the Horn of Africa', *Political Geography* 26 (2007): 716–35; Joseph G. Bock, 'The efficacy of violence mitigation: a second look using time-series analysis', *Political Geography* xxx (2009): 1–5.

14 Intergovernmental Authority on Development, *IGAD Strategy*, Djibouti, October 2003.

15 Ayele Solomon, Assegid Workalemahu, M.A. Jabbar, M.M. Ahmed and Belachew Hurissa, *Livestock Marketing in Ethiopia: A Review of Structure, Performance and Development Initiatives*, Socio-economics and Policy Research Working Paper 52, Livestock Marketing Authority and International Livestock Research Institute, 2003.

the informal export of livestock from the more peripheral pastoralist and agro-pastoralist areas to Kenya and the Somali ports is more viable than selling to the Addis Ababa markets, though the absence of regulation also renders supplies from these sources more susceptible to diseases such as Rift Valley fever. An outbreak in early 2007 in Northern Kenya caused a reintroduction of the 2000 Middle East ban, with significant effects not only on live animal exports but also on formal meat export earnings, domestic prices and household incomes. IGAD is coordinating national governments in addressing this important developmental issue,<sup>16</sup> but although the informal cross-border livestock trade is currently an important source of livelihoods in the areas concerned and hence provides a basis for the regional development of these areas, there is also some danger that future cross-border potential will be threatened if eventual enforcement of regulations means greater centralization, or diversion to formal routes.

This is a complex equation, however. Evidence suggests that the various source markets in Ethiopia are not well integrated spatially which implies that the primary sellers are not well informed about prices and have limited choices. Recent interventions by USAID in the Negelle and Filtu districts of Ethiopia, to provide feeding, corralling and veterinary services and to introduce the services of traders from Addis Ababa, appear to have offered a preferred alternative to local sellers of cattle (who are mostly men) and of small livestock (who are often women) when compared with sales for trekking to Somalia.<sup>17</sup> It is possible, therefore, that the primary suppliers could be better off as a consequence of increased formalization while the losers are the cross-border traders and brokers. Each, however, has an ancillary community and the challenge is to harness the economic drivers for cooperation that have been generated by the traditional cross-border activities and so to construct a regionally integrated market.<sup>18</sup>

### Energy resources and supplies

The demand for energy pervades the region, from the humblest village to the largest manufacturing company and the power needs of a large city, and at all levels there is scope for conflict to displace cooperation. In Sudan oil comprises 98% of export earnings and provides 60% of government revenue, and the distribution of profits and royalties between the governments of the north and south is a highly contentious factor in current relationships. By purchasing a substantial proportion of its oil needs from Sudan, in which negotiations are with the government in the north, Ethiopia has to tread a careful diplomatic path.

As noted already, Ethiopia's loss of access to the sea and dependence on oil imports has led to a rapid expansion of hydroelectric power, which is also expected to provide exports to Sudan, Djibouti and, in due course, Eritrea and possibly Somalia. The latter has little yet in the way of proven oil reserves, though Chinese exploration in the Mudug region of Puntland raises the stakes for potential dispute between Puntland and any future Mogadishu government over control of the region.

Similar tensions exist over oil exploration concessions in Sanaag region of Puntland which is also claimed by Somaliland. Before the fall of the Barre regime several US companies had concessions to explore for oil and gas in Sudan and may attempt to revive these rights in the future. The possibility of finding oil in the Ogaden, where Chinese exploration is under way, is an added factor in the politics of that region. Oil also powers generators for small towns and businesses throughout the region, while paraffin fuels lamps and stoves.

Heating and cooking in poor households is also widely dependent on wood and charcoal which gradually destroys woodland, encourages soil erosion and damages the grazing habitat for livestock. On the other hand, charcoal production for sale is a traditional

16 Melaku Geboye Desta, *The Regulatory Framework for Trade in IGAD Livestock Products*, IGAD LPI Working Paper No. 07 – 08, IGAD Livestock Policy Initiative, November 2007.

17 Anne Marie del Castillo and John Graham, 'Aiding Pastoralists in the Horn of Africa', *eJournal USA*, September 2007.

18 Caroline Lesser and Evdokia Moisé-Leeman, *Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa*, OECD Trade Policy Working Papers No. 86, February 2009.

coping mechanism for pastoralists during drought, while demand in Somalia has been boosted by the absence of alternative fuels and appears to be drastically reducing forest reserves (some charcoal is also exported).<sup>19</sup> At these local levels the potential for conflict is high.

#### External influences

Mention has already been made of the periodic bans by Saudi Arabia and the Gulf states on livestock and meat imports from the Horn. Political instability (again with economic drivers) in Chad, Democratic Republic of Congo and northern Uganda is affecting Southern Sudan, potentially driving displaced populations eastwards. China, India and Saudi Arabia are all interested in purchasing or leasing large areas of land, particularly in Ethiopia, for food crop production for their own domestic markets. Egypt and Sudan have concerns over the plans to increase water management from the upper Blue and White Niles. The Americans' strategies in the 'war on terror', as they see it manifested in Somalia, affects the volume and type of aid received in the region and influences the foreign policies of other countries, particularly Ethiopia and Djibouti. But this very intervention tends to stimulate an intensification of recruitment to armed Islamist opposition groups, which thrive on the absence of a peaceful settlement in Somalia. This also provides an environment from which arms supplies to anti-government groups in Yemen are shipped. More generally, and returning to the region as a whole, many international aid programmes are not mainstreamed for conflict prevention, in that they may inadvertently favour one group rather than another.<sup>20</sup>

#### Remittances

Among the economic drivers of conflict and cooperation, private remittances from abroad, frequently channelled through the *xawilaad* system,<sup>21</sup> play a significant role in several parts of the region. In Eritrea, for instance, in 1999, during the height of the war with Ethiopia, remittances were worth 194.1% of the value of exports and contributed 19.7% of GDP.<sup>22</sup> More recent data are difficult to come by but in Ethiopia in 2006 remittances are estimated to have amounted to \$172m or 1.3% of GNI.<sup>23</sup> IFAD estimates place the figure at \$591 million, or 4% of Ethiopia's GDP in 2006.<sup>24</sup> Estimates for Somalia are as high as \$800–1,000 million per annum.<sup>25</sup> Those which arrive through official channels, as most do in Eritrea, add to central bank foreign exchange reserves which may then be used, *inter alia*, for military purchases. Those which use unofficial corridors will tend to leave foreign exchange in private hands; it may then be used or sold on for the purchase of legal and illegal imports. There will also be high transaction costs in using this route, although these may be offset if official rates are overvalued. Where volumes are as high as they are in Eritrea there is likely to be an inflationary effect where they are converted to nakfa for the purchase of locally produced goods (they may also be used to finance illegal flight from the country).

In Somaliland one-third to one-half of total remittances are for direct family support or, to a lesser extent, to assist family businesses. A number of these have survived in fields such as telecommunications, light manufactured goods and construction, thereby sustaining a small but potentially significant middle class.

Remittances also have multiplier effects, spreading out in various ways to other sections of the local community

19 Encapafrika, USAID/Somalia Strategy Statement, FY 2006–2007, Annex B: Somalia Environmental Analysis: Tropical Forestry, Biodiversity & Environmental Management.

20 Benson Ochieng, *Trade, Aid and Conflict in the Horn of Africa: The Role of the EU-ACP Cotonou Partnership Agreement*, Africa Peace Forum, InterAfrica Group and Saferworld, October 2005.

21 For an explanation, see Anna Lindley, 'Between "Dirty Money" and "Development Capital": Somali Money Transfer Infrastructure under Global Scrutiny', *African Affairs*, 108 (2009): 433.

22 Hillel Rapoport and Frédéric Docquier, *The Economics of Migrants' Remittances*, Institut zur Zukunft der Arbeit (IZA), Germany, Discussion Paper No. 1531, March 2005.

23 Dilip Ratha and Zhimei Xu, *Migration and Remittances Factbook*, World Bank.

24 International Fund for Agricultural Development, <http://www.ifad.org/remittances/maps/africa.htm>.

25 World Bank and UNDP, *Socio-Economic Survey 2002: Somalia*, Report No.1, Somalia Watching Brief 2003; Anna Lindley, *Remittances in Fragile Settings: A Somali Case Study*, Households in Conflict Network, Institute of Development Studies, Working Paper 27, March 2007.

and helping, through financing fees, to sustain education and health services.<sup>26</sup> On the other hand, remittances can also support armed factions and fuel conflict, as indeed they did for the Somali National Movement in the establishment of Somaliland, and as they currently do through ‘financial jihad’ for al-Shabaab.<sup>27</sup> In Sudan emigrants are estimated to constitute 1.6% of the population; in 2006 their remittances through formal channels amounted to \$1,157m, or 3.1% of GDP. On the other hand, the number of immigrants exceeded that of emigrants, though it may be surmised that their remittances out would possibly be less. Many labour migrants, for instance to Libya, will carry cash back, but there is also a well-established process of informal remittance transfer from Omdurman to provinces such as Darfur, via variations of the *hawala* system.<sup>28</sup> These often use the services of traders by converting cash into goods and back to cash again on delivery,<sup>29</sup> reflecting once again the importance of markets.

#### Drought and climate change

The broad prediction of climate change in the Sahel and Horn regions is that rainfall will decrease while at the same time becoming more precipitous when it does occur. One study of Ethiopian agro-ecological zones indicates that the impact on agriculture will be a reduction in farm net revenue by 2050 and 2100,<sup>30</sup> although the pattern is uneven across the zones. Other studies predict that increased drought conditions, especially in the pastoralist regions which constitute some 70% of the land area of the Horn, will intensify pressure on grazing and water resources.<sup>31</sup> This will then add to existing changes in the nature of intra-pastoralist conflict, such as the availability of small arms and erosion of traditional modes of conflict

resolution, to increase the likelihood of future conflicts, with the threat of spillover into the wider region and across neighbouring borders, as discussed above.

More research is needed on the anticipated regional and sub-regional impact of climate change, in order that effectively targeted policies may be developed in advance. There is also a need to distinguish between, and integrate, immediate to short-term needs, in response, for example, to current droughts, displaced populations and the impact of contemporary politically motivated interventions, and the medium- to long-term requirements. This calls, however, for a range of probable predictions about the local nature and extent of climate change in different ecological zones, the impact on yields and livelihoods and household reactions, and for a climate-based assessment of current developmental policies and their impact on vulnerable communities.

#### Policy indicators

The most likely predictor of conflict is the existence of previous conflict in the same area; this implies that priority should be given to policies in the Horn which will break this cycle. These have to address the primary causes, including the economic drivers, of the initial and subsequent conflicts, the consequences of the latest conflict in terms of displaced people and acquisition of land and property by force, and the potential grievances of those left out of the post-conflict settlement. The related major issues of the status of Somaliland and Puntland and of a number of contested sub-regions of Somalia will need resolving, together with an agreement over Badme on the Ethiopian–Eritrean border. These all have to be anticipated with some urgency with regard to current conflicts.<sup>32</sup>

26 Lindley, *Remittances in Fragile Settings*.

27 Abdisaid M. Ali, *The Al-Shabaab Al-Mujahidiin – A Profile of the First Somali Terrorist Organisation*, Institut für Strategie- Politik- Sicherheits- und Wirtschaftsberatung (ISPSW), Berlin, June 2008.

28 See note 5 above.

29 Helen Young, *Livelihoods, Migration and Remittance Flows in Times of Crisis and Conflict: Case Studies from Darfur, Sudan*, Humanitarian Policy Group, ODI, September 2006.

30 Temesgen Tadesse Deressa and Rashid M. Hassan, ‘Economic Impact of Climate Change on Crop Production in Ethiopia: Evidence from Cross-section Measures’, *Journal of African Economies* 18(4) (2009): 529–54.

31 Alexander Carius, Dennis Tanzler and Achim Maas, *Climate Change and Security: Challenges for German Development Cooperation*, GTZ, April 2008; UNEP, *From Conflict to Peacebuilding: The Role of Natural Resources and the Environment*, February 2009.

32 Abdul Mohammed and Alex de Waal, ‘Africa’s New Multilateralism: Towards a Framework for Regional Peace and Security in the Horn’, Section 1 of *Preparation of Peace and Security for IGAD*, The Khartoum Consultations, IGAD, 2007; Lionel Cliffe, ‘Realizing the Peace Dividend’, Section 2 in *ibid*.

The issue then arises of policies to ensure an unbroken pattern of stable development over the longer term, for which equitable, relevant and coherent short- and medium-term measures to channel economic drivers in the right direction are essential. These should not be plucked from the air in response to unconnected sectoral needs. It is important that all policies, from those of central government down to the deliberations of a local cooperative, are based on a vision for the years ahead, and on a statement of values, which together then guide the construction of strategies that incorporate goals, targets, policies, plans and programmes as the practical means to achieve the vision. The key values in the Horn should include the following:

- Recognition of the importance of horizontal equity and inclusion, and being seen to be taking it into account in all decisions.
- Respect for the role of mainstream Islam (Sunni or Sufi) in national and local governance in those countries where it is important, and a willingness to negotiate constructively.
- Acknowledgment of the potential of positive clan values, and traditional values among pastoralists and others in the region, to encourage peaceful cooperation.
- Respect for open, non-conflictual, inclusive democratic processes appropriate to the various cultures of the region in the formulation and implementation of policy affecting economic drivers.

These values need to be seen to be present in all processes and programmes, among which there are key areas that must be addressed if economic drivers for development are to be kept on course. Prime among these, though not to exclude others, must be the following:

- A comprehensive plan for the future social and economic stability of the Wabi Shebelle and Juba riverine communities.
- A regional programme for the development of trade routes to the sea in the Ethiopia-Djibouti-Somaliland sub-region and the formation of a regional port development forum.
- Intensification of existing pastoralist development programmes and creation of land management authorities, having pastoralist representation, to facilitate transition to agro-pastoralism, to protect grazing lands, and mediate in disputes.
- Concessions to support the long-term potential of existing sub-regional cross-border informal economic activities and their dependent communities, including intervention to minimize livestock disease.
- Ensuring the orderly coordination of all international aid programmes, both across programmes and as they are individually phased in over time, to avoid capacity bottlenecks and minimize scope for inefficiency and corruption. Also ensuring that all are sensitive to any potential incentives for further conflict.

In all of this and throughout this paper there is no mention of gender, but its presence is implicit in the first of the values listed above. The role of women as small traders, textile workers and in the processing of marketed crops is often informal and highly vulnerable to externally induced change. Where this threatens livelihoods it will foster discontent, may lead to the break-up of families and provides fertile ground for recruitment to armed dissident groups. This serves as a reminder that the resources which fuel and sustain conflict include the men with guns who have come from a household somewhere.

## Economic Drivers of Conflict and Cooperation in the Horn of Africa

Table 1: Horn of Africa – basic data

	Country area (thousands sq km <sup>2</sup> )	Population (millions)	Annual population growth (%)	GDP (\$ billions)	Annual economic growth (%)	Rank on Human Development Index (of 182 countries)	Population living below national poverty line (%)	Life expectancy (yrs)
Djibouti	22.98	0.8	1.8	1	3.9	155	42	55
Eritrea	118	5	3.1	1.5	2	165	53	58
Ethiopia	1,110.4	85.2	2.6	25.2	11	171	44	58
Kenya	580	38.5	2.6	41.9	3.6	147	52	53
Somalia	638	9	2.9	5.5*	No data	No data	No data	48
Sudan	2,506	39.4	2.2	54.3	8.3	150	40	58
Uganda	241	31.9	3.3	16.6	9.5	157	38	51

Sources: Africa Development Bank, 2008; UNDP, 2007; UNICEF, 2007; World Bank, 2008; UNDATA, 2008; CIA World Factbook, 2009

\* Denotes estimates for Somali figures from US State Government

Table 2: Horn of Africa – livelihoods

	Rural population (%)	Agricultural labour force (% of total labour force)	Arable land (% of total land area)	Livestock (thousands)					% GDP from agriculture
				Goats	Sheep	Cattle	Camels	Asses	
Djibouti	14	77	0.06	512	466	297	No data	8.8	4
Eritrea	81	76	6	1720	2,120	1,960	76	No data	18
Ethiopia	84	81	14	21,710	26,117	43,000	2,300	4270	47
Kenya	79	74	9	13,966	9,429	12,900	1,006	No data	27
Somalia	65	69	0.2	12,700	13,100	5,350	7,000	22	40*
Sudan	59	57	8	42,987	50,944	41,404	4,250	750	32
Uganda	86	78	28	8,275	1,697	7,182	No data	18	32

Sources: UNDESA, 2007; World Resources Institute – Earth Trends Database, 2006; FAO, 2007, UNDATA, 2008

\* Denotes estimates for Somali figures from CIA World Factbook

Table 3: Horn of Africa – transport data

	Roads (km)		Railways	Pipelines (km)
	Total	Total paved (approx %)		
Djibouti	3,065	13	99	0
Eritrea	4,010	22	118	0
Ethiopia	36,469	15	681	0
Kenya	114, 226	14	1920	Refined products (928 km), oil (4km)
Somalia	22, 500	12	0	0
Sudan	35,000	23	4789	Oil (4,070 km), refined products (1,613 km), gas (156 km)
Uganda	70, 746	25	1240	0

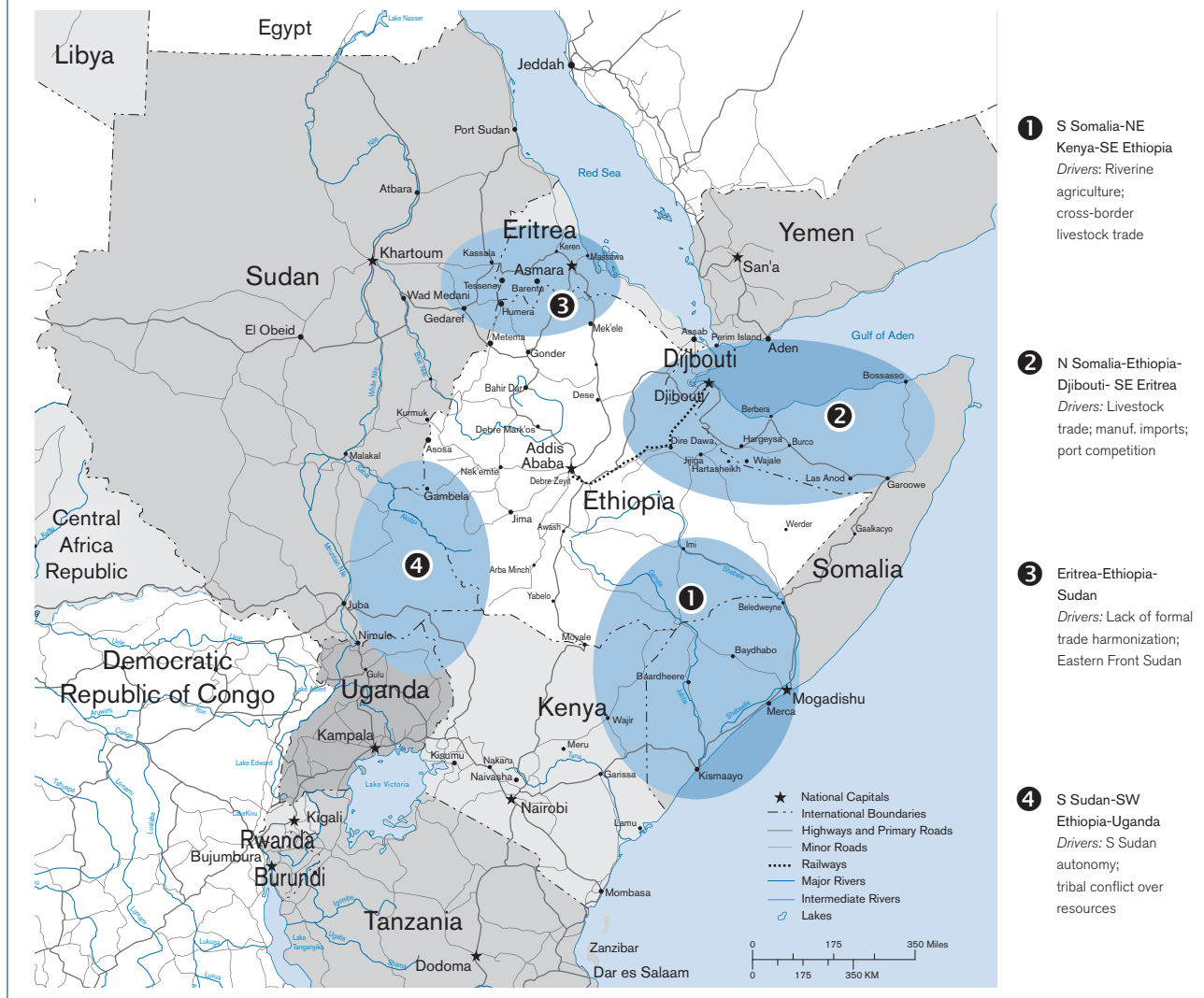
Sources: Infrastructure Consortium for Africa; UN Joint Logistics Centre; World Bank; International Finance Corporation

Table 4: Distances between ports and major cities (road km, unless otherwise stated)

	DJIBOUTI Djibouti Port	ERITREA Port of Massawa Port of Assab	KENYA Mombasa Port	SOMALIA Port of Bossaso Mogadishu Port Merca Port	KISMAYO Port	SOMALILAND Berbera Port	SUDAN Port Sudan
ETHIOPIA	Addis Ababa	910 781 rail	2077 via Moyale	2231 via Garoowe	1979	964 via Dire Dawa 483	1881 via Metema 2404
	Dire Dawa	303 rail					
	Gonder	646	1521 via Addis	1507	1567		
	Mekele	391	899				1788
ERITREA	Asmara	115	763				
	Tesseney	475 via Asmara	1123				
KENYA	Nairobi		487				
	Moyale		1278				
SOMALIA	Mogadishu			1105	411	928	
	Garoowe			327	1172	443	
	Kismayo			1482	338	1225	
	Beledweyne			846	637	631	
	Galkaayo			535	957	485	
SOMALILAND	Hargeisa	416		591	871	1100	147
SUDAN	Khartoum	1161					1191 787 rail
	Kassala						550
	Gedaref						700
	Juba		1755				2657
UGANDA	Kampala		1211				

Sources: International Road Federation, 2008; World Bank Transport Data; United Nations Joint Logistics Centre; Uganda National Road Network; UNHCR Global Insight Mapping; Port of Djibouti Commercial Department

## Major zones of borderland insecurity and their economic drivers in the Horn of Africa



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