



Discussing Opportunities and Crisis in The Horn of Africa (HOA)

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Abstract: In this article, an analytical framework is adopted to analyze the socio-political status and economic performance of the Horn of Africa (HOA) region, consisting of Ethiopia, Eritrea, Djibouti, and Somalia. We have identified the essential socio economic factors, and constraints specific to each country to focus the efforts on lifting these constraints and access future opportunities for growth. Such a case study approach provides a valuable methodology to help policymakers create a targeted strategy for development. Our objective was to provide an insight into the current state of HOA, in terms of the growth in the Horn region, taking into account factors such as poor social returns, restricted access to finance, instability and market failures.

Keywords: Horn of Africa (HOA), Economic instability, Political turmoil in Africa, Underdeveloped countries, Poverty

1. Introduction

The Horn of Africa includes the poorest and least developed countries in the world, where constant disturbances, armed conflicts and fights for national interests generate unstable regional environment and community, despite a good strategic and geographical potentials. Lately there have been some decreases in terms of socio-economical progress, and we aim to provide insight into the current status by revising the key economic indicators of HOA region, thus providing some suggestions that may prove to be beneficial further economic and political development.

Although some of the legislative interpretations and researches allocate Tanzania, Sudan, Kenya, and Uganda within the East African subregion, known as the Horn of Africa (shortened to HOA), this legislative region is mainly comprised of Somalia, Djibouti, Eritrea, and Ethiopia. Over the years, the Horn of Africa has shown low rates of growth and development. This disappointing performance is the leading cause of deficient socio-economic progress in the region. The horn sub-region is not a self-defined region, but it was a victim under the clutches of world superpowers, which in turn divided the region for their advantage. Ayana & Sima (2018) found that each of the countries of the Horn suffers from protracted political strife, arising from local and national grievance, identity politics and regional inter-state rivalries, highlighting the significance of the Horn strategic setup in the power struggles for gaining the control of the region.

The political history of the Horn of Africa is characterized by armed conflicts, state violence, political repression, and protracted socio-political conflicts (Gebrewold, B., 2017). Countries of the Horn sub-region pay great attention to resolving the political challenges. Leaders of the region have experience at handling the political marketplace (de Waal 2015) through harnessing disturbances and unstable issues of the region. Sometimes, their political strategies take advantages of these situations to their interests. Reflecting upon the Horn policy, de Waal & Rachel (2016) conclude that the region lacks the mechanisms for resolving the conflicts, but that there is an enduring threat to national and regional ownership of the region's agenda, where powers outside the region can take political decisions with significant repercussions for the Horn. Most provincial governments rely their economic policies on security cooperation with the U.S and the Gulf countries as Eritrea, Djibouti, Somalia, and Sudan. Other rely on rents from external sources, including oil as Sudan and South Sudan

2. Socio-economic Overview of Horn of Africa

This section focuses on the specific issues of The Horn of Africa, such as poverty and high diversity in geo-historical circumstances.

The Horn of Africa is often said to be amongst the most volatile and vulnerable territories to armed violence. According to the (Solomon et al., 2018), it is plausible that climate variability, as well as change, could have played a role in increasing or decreasing the impacts of conflicts within the Horn of Africa. The researchers have demonstrated that the biodiversity and animals also have undergone the adverse effects of the armed clashes due to the exploitation, abuse, and depletion of the natural resources, which gradually contaminates both the oceans and the soil, and fragmentation and loss of habitat for the animals (Baral and Heinen, 2005; Eniang et al., 2007; Messina and Delamater, 2006).

As reported by USAID (2012) and Fulgence (2015), HOA suffers from instability and disputes, and that makes the region one of the most unstable areas around the world. In line with (USAID, 2012), HOA is a challenging region to deal with conflicts due to Africa's heterogeneity and considerable territory. While multilateral collective security mechanisms for the Horn of Africa have been moderately effective in reducing armed conflict and promoting peace agreements, de Waal & Rachel (2016) found them to be increasingly an elitist, governmental mechanism, inaccessible to civil society and the citizenry at large.

As stated in Conteh (1998), the main reason for the financial difficulties that the region struggles from is the constant frictions, fights, and political tensions. Besides the economic slowdown, it has been reported on several accounts that the human populations often undergo the negative consequences of the clashes (Ismael, 2007; Sidel and Levy, 2008; Tardanico, 2008; Li and Fang, 2016). Joksimovich (2000) moreover notes the harmful consequences of the armed clashes on civilians by revealing everlasting and malicious effects of gun use on air, land, and water borders. Catley, Lind & Scoones (2016) argue that coexistence of economic growth and increasing poverty in 'high-export' areas may be explained by human population growth, drought, and the private control of pastures and water by wealthier producers. Solomon et al. (2018) state that conflict has extensive negative impacts on the environment in the Horn of Africa with leading causes like grievances, government behavior and interests, resource scarcity and transborder strife as well as internal migration and climate variability.

According to the study conducted by Crawley & Blitz (2018) on 128 participant migrants originating from the Horn region, conflict, insecurity, and human rights abuse in countries of origin and neighboring countries often drives decisions to move out. Migration is often underpinned by a complex, and often inter-related, set of factors including political repression, armed conflict, poor governance, environmental degradation and food insecurity, climatic disasters including droughts and floods, and lack of economic opportunities. For instance, the Horn of Africa has a long history of terrible marginalization compared to other areas. One of the particular facts about the region is the insulting exclusion based on race, religion, and ethnicity. The civil society groups have a prominent role in creating more inclusive politics. The demands of the civil society encouraged some social and cultural movements. These peaceful movements turned into violent resistance due to the consistent rejection of governments. Civil society organizations seek to solve many prevalent sexual and gender-related problems in the region as violence (Life and Peace Institute 2014).

3. The political and economic status of the Horn of Africa countries

In this section we examine the status of the Horn of Africa following the relevant key economic indicators about general macroeconomic conditions, such as GDP, import and export levels, employment, policy and financial debts. Furthermore, we will consider geo-strategical potentials of HOA region and highlight some recent policy changes.

3.1 Poverty

Migration may be a significant indicator of the countries socio-economical status and current problems that call for immediate attention. Virtually all Eritrean respondents in a survey conducted on the 128 migrants from Eritrea to Europe by Crawley & Blitz (2018) described 'endless military service' as the principal driver of their decision to leave. For many people, the issue of forced military conscription was combined with a lack of opportunities to earn a decent salary, see or spend time with their family or continue with their chosen educational path.

In Ethiopia, 34,3% of the houses do not have drinkable water running from their sink, 40% of the Ethiopians do not have electricity in their homes, and taking Sub-Saharan Africa into account, the population has the least access to asphalt roads. More than twenty-five million Ethiopians suffer from severe malnutrition and destitution, regardless of the reduction in poverty rates from 46% to 23,5% throughout the period covering 1995 to 2016

In Somalia, there were several perils such as insecurity problems, rain-fed agricultural lands being unproductive due to adverse weather conditions, and lack of adequate livestock trade. Besides, some difficulties arose such as increasing debt to international financial organizations, limitations of infrastructure, governmental institutions being ineffective or devoid of capacity, and inadequate public financial management. The civil war ruined a large part of the Somalian infrastructure, which is vital for fulfilling the basic needs such as health, energy, water, transport, education or security, as well as the state institutions and governance mechanism. Thus, projects cannot be started up or executed due to the problems of legitimacy, capability, or transparency of state financial management system. A high rate of unemployment amongst the young population, Al-Shabaab and ISIS attacks, and ineffective legal sanctions have caused a persistent insecurity problem within the country. As droughts and water floods break out, social and financial developments have been negatively influenced. Insufficient governmental management and labor force have been significant obstacles to the payment of debts.

3.2 Geographical & strategical position of HOA

Ethiopia is located strategically near the profitable commercial regions like the Middle East, and Europe. To maintain peace in the Horn of Africa and encourage welfare among nations, both Eritrea and Ethiopia must reestablish interstate relations and reform their policies.

In 2018 July, the most prominent African free trade zone was inaugurated. Djibouti struggles with global defense, commercial, expansion, and financial challenges due to the country's geopolitical position and its proximity to the Indian Ocean. Therefore, the country is home to numerous military headquarters due to its geological appeal. In a region where several countries undergo governmental chaos since their independence, Djibouti's political stability is a fortune. Since Djibouti has several harbors opening to the ocean, the country benefits from its next-door-neighbor Ethiopia, which is a landlocked country and has experienced substantial growth in the economy within the last ten years.

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3.3.1 Import/export and GDP

In comparison with the 4,1% growth in 2017, In 2018, Djibouti was assessed to reach 5,6% growth in the real gross domestic product as a result of considerable infrastructure investments and political enhancement with neighboring Ethiopia. The country acquired its growth in the economy through the storage, transportation, and construction, which is known as the tertiary sector, on the supply side. However, starting from 2014, due to massive amounts of importation of equipment for the projects concerning the infrastructure, funded via international loans and the loans from foreign banks, the deficit in finances deteriorated partly, to an expected 15,5% of the gross domestic product in 2018 in comparison to the 15,3% level of the year 2017. On the other hand, in contrast to the 0,6 of inflation in 2017, it increased by 0,2% and reached an estimated 0,8% level in 2018. Regulation of inflation results chiefly from setting a fixed rate and anchoring the national currency, Djibouti franc, to the USD.(African Economic Outlook 2019)

Since there was an imbalance in the trade caused by a structural deficit in 2017, the value of the goods and services Djibouti imports exceeded the value of the products it exported and was calculated to be 17,5% of the gross domestic product, and 17,8% in 2018. While Djibouti's importations vary, they mainly consist of capital goods, petroleum as well as food items. The main exportation of the country is the bovine animals to the Arabian Gulf countries. Therefore, in terms of the actual exchange rate, the current balance of payments does not show significant variations. (African Economic Outlook 2019)

Both in 2017 and 2018, Ethiopia saw a decrease in the growth rate of the real gross domestic product owing to the political moves which focused on monetary stabilization to keep the federal debt at a certain level, jurisdictional ambiguity, and the public uprising. Growth of GDP corresponds to the 12,2% of growth in the industry in numerous fields like that of the infrastructure for transportation, industrial zones, and advancement in energy resources; as well as to the 8,8% rise in services on the supply side. The other factor that backed the growth together with the investments was the increase in personal consumption of goods among the population. Last but not least, substantial foreign venture inflows and the constant state subsidies for enhancing state infrastructure on the demand side contributed to the improvement in the growth of the real gross domestic product likewise among many other factors.

In 2017, the estimated real gross domestic product growth was 5,0% and 4,2% in 2018. The reduction in the gross domestic product growth arose from high levels of investments in the construction and mining industries. In 2018, the industrial sector saw an increase of 1,0% and the agricultural industry 0,9%. On the other hand, the service sector's growth was 2,7% in 2017 and decreased to 2,3% in 2018. The enhancement in the economy originated from the advances in the nationwide infrastructure, particularly in the irrigation and energy systems, as well as highways. (African Economic Outlook 2019) Production of the major exportation goods, which are oilseeds, coffee, and pulses, is around 10% of the gross domestic product of Ethiopia. On top of that, extreme climate changes and aridity have fatal outcomes over the ecosystem, which cause fiscal deficits.

In 2018, financial experts predicted the real gross domestic product growth as 2,9% for Somalia. Private consumption and government made the most significant contribution to the demand, whose summation was an estimated 83% of the gross domestic product; while the supply is created mainly by livestock, agriculture, telecommunications, and financial services. The GDP was negatively affected by the current account deficit, which reached a value of 7,2%. Saudi Arabia's embargo on Somalian livestock due to an outbreak of Rift Valley fever; increasing oil prices; and highly imported capital and final goods especially as a result of unceasing droughts were the principal factors that raised this deficit.

3.3.2 Debt

In 2014 the external debt in Djibouti was calculated to be around 49,9%, in 2016 at about 97,4%, and in 2018 at approximately 102,9% of the gross domestic product. At the end of 2017, the IMF and World Bank analyzed that in a short period, the country shows a tremendous risk of liquidation and debt sustainability. Djibouti is increasing debt may affect the country financially and strategically at a level that its investment projects in the infrastructure could either halt or slow down.

Ethiopia has been suffering from account deficit; however, in comparison to the period 2016-2017 in which the country had an account deficit of 8,1% of its gross domestic product, there has been an improvement between 2017-2018 in which the country acquired a ratio of 6,0% account deficit of its gross domestic product through improved growth rate in subsidies and decreased trade deficit. Ethiopia had low gross official reserves overall with import values of 2,1 months between the years 2017-2018 and 2,5 between 2016 and 2017. A debt feasibility analysis conducted in 2008 demonstrated that as of 2018 June, Ethiopia is among the nations with a risk profile in terms of debt due to its high 61,8% ratio to the gross domestic product. However, for enhanced administrative efficiency and tax policy, Ethiopia is working on a tax reformation schedule. (African Economic Outlook 2019)

On the one hand, the Ethiopian crop production is likely to experience enhancements through the state funds on genetically enriched seeds, irrigation systems, as well as the fertilizer products, and on the other hand, through subsidies for the infrastructure of the industrial zones will enable the country to benefit considerable advancement in its industry. When combating the national debt, the private sector will provide modest amounts of investments. to reduce state expenditures and to promote the private sector, Ethiopia will privatize telecommunications, electricity, logistics, as well as a public transportation such as the airline, marine, and railway transportation sectors imminently.

Eritrea currently suffers from debt distress. In 2018, the total external debt accounted for 20%, while the domestic debt accounted for 80% of the gross domestic product. While the Eritrean marketplace faces fluctuation in the prices of copper and gold, the actual capital surplus decreased from 0,7% in 2017 to 0,3% of the gross domestic product in 2018. However, in 2018, the fiscal deficit of Eritrea declined to a level of 12,6% of its gross domestic product from the levels of 13,8% in 2017. Boosted profits in the mining industry enabled the entire foreign stocks to propel, rising from 5,1 months of importations in 2017 to 7,3 months in 2018. (African Economic Outlook 2019)

Somalia managed to balance the budget of 2018 by improving government expenditures and collecting domestic revenue effectively. However, the country has been experiencing difficulties in servicing its debt, which is about 65% of its gross domestic product in 2017. Foreign exchange market interventions stopped, and monetary policy continued to be inactive during this period. Unfavorable weather conditions caused food prices to increase, which led a 5,1% inflation in 2018. (African Economic Outlook 2019)

3.3.3 Unemployment 1 Derivative for rate of return

Djibouti has suffered from various problems, notwithstanding the promising advancements and improvements. First and foremost, Djibouti has been struggling with high unemployment rates. For example, in 2017, the unemployment rate was 39%.

3.4 Law and policy

In recent months, Ethiopia has reformed its policies and institutionalized authority and influence of law in society as well as the democracy, which helped the Ethiopian economy to maintain and restore harmony, and to expand the democratize the country. However, the country is affected by numerous negative changes too, such as violent conflicts, migration in multitudes, disturbances in financial conditions that influence Ethiopia's economy over time in several regions of the country.

The implementation of a legal framework for sustainable development in Ethiopian law implementation is limited by the traditional deference to the economy at the expense of the environment. Weak political commitment to fully implement existing laws to promote sustainable development, prioritizing one pillar of development over the other, lack of synergy between institutions meant to promote sustainable development and weak institutional capacity as well as legal gaps are among challenges to the implementation of sustainable development. (Ayana, T. B., & Sima, W. D., 2018).

Ethiopia is unique to its prolonged well-developed strategy for economic and political growth to the democratic developmental state. An 'economy-first' national security strategy (Federal Democratic Republic of Ethiopia 2002), is required to envisage an accelerated growth of the economy as a base to the national reform. Ethiopian foreign policy is based on ambitious domestic objectives to become a middle-income country by 2025. Economic interdependence and integration are portrayed as the methods necessary to stabilize the region and fulfill those objectives. (Le Gouriellec, S., 2018)

Another recent positive change in the Horn of Africa affected Djibouti negatively, and that is the peace talks between Eritrea and Ethiopia that enables now Ethiopia to use the harbors of Eritrea in commercial activity, rather than Djibouti's, which can eventually affect the vulnerable economy of the state harshly in the short term.

3.5 Environmental changes

Djibouti is trying to cope with the climate change that affects the environment intensely causing nature as well as the ecosystem to be fragile to climatic variations especially when there are hazardous changes in the climate.

Being overly dependent on imports and rainfed agriculture, as well as having a narrow base of exports, cause some risks for Eritrea related to climate changes. Lack of adequate or qualified infrastructure for water supply, health, and agriculture affects the reliability or functionality of institutions; so is the necessity of a robust statistical system to plan, implement, manage and evaluate future projects. Also, some restrictions on financial or economic policies, as well as some skill mismatches are arising as the private sector has just begun to develop.

4. Discussion and implications for the future of HOA region

4.1 Limited financial access

According to several studies, countries with stable financial access have accomplished higher rates of growth. Depending on these studies, the sufficiency of external and domestic finance is evaluated by testing the financial access as a binding constraint for the economic progress in the Horn region.

The Horn countries have one of the most backward local systems of finance; besides, the domestic financial access is constrained. Regarding rates of domestic savings, the sub-region has an unsatisfactory level. The major causes of the low domestic saving should be defined and solved as this reduced saving level is a potential constraint of growth in the Horn of Africa. In developing countries, multiple economic aspects and factors hinder the development of the financial saving instruments and weaken the per capita income.

The capital cost and markets of the Horn sub-region are undeveloped and of average rates. The constrained financial access, as shown by other variables in the face of the low level of the financial cost may explain why interest rates and interest rates spread are highly restricted.

4.2 Appropriability related constraints

Unsuccessful policies of the region Governments have a direct effect as a critical constraint for real and developed economy in the Horn region. According to macroeconomic stability's studies in the Horn of Africa, the fiscal deficits and unemployment rates recorded higher levels compared with those of many countries in the world. Government related issues retard economic growth but not considered a potential binding constraint.

Governance issues are an assistant factor in retarding economic progress but not a principal constraint. The inadequate business environment in the Horn sub-region is not a real hindrance to economic development. Other principle constraints for growth are credit access and market restrictions. Doing business faces a significant challenge representing the limited access to land in the Horn region.

4.3 Constraints on social returns to capital

In the Horn of Africa, the low levels of education and literacy have led to low levels of human capital compared to any other region in the world. School enrollment and access to skilled workers don't live up to the level of other developing countries. So, education is identified as another potential constraint in the Horn sub-region.

4.4 Policy implication

The government policy is responsible for the key binding constraints on the Horn's growth, such as the unsatisfied social returns and finance related issues. Lubricating the economic sectors and solving financial problems are critical for accelerated growth and development. The underdeveloped financial sector leads to weak financial intermediation. Each country has a significant role in reforming its public services and finance. In the Horn of Africa, policymakers should remove restrictions on the domestic savings mobilization an account of underdeveloped financial intermediation and low levels of personal income. Introduction of vibrant financial institutions is a must, and this includes commercial and development banks, and non-bank institutions.

Despite there being significant investments and allocation of funds linked to the education sector, children in large parts of Africa are not being taught well. The reason behind this is poor governance majorly from both the national and county government in Africa. The corrupt behavior by government officials has increased the likelihood of schools having inadequate textbooks, overcrowded rooms, unqualified teachers and staff, instances of teachers being absent and insufficient resources for the expansion of these schools in terms of infrastructure.

4.5 As the government, the private sector also has a role in the provision of education.

According to the de Waal & Rachel (2016), the Horn of Africa region consists of small open economies at the margins of the world economy heavily dependent on flows of funds from aid, remittances, and political and security cooperation payments, which are also subject to the shifting legislative priorities determined elsewhere. This situation demands the commitment of external development partners of the region to develop radical solutions to the major constraints of The

Horn of Africa as poverty, low-income levels, and struggling economic growth. The development members of the sub-region should direct their technical and financial support toward infrastructure and education as a priority concern. The involvement of global financial institutions is inevitable in order to develop the capacity of the financial sector needed for economic growth. Due to the lack of resources, members of the sub-region may not be able to handle their education and financial and infrastructural sectors simultaneously and effectively. As a result, there are some realistic suggestions for the proper reform process and policy regulations to avoid the significant binding constraints in the possible future areas of work. All circumstances indicate that sub-region members can perform the targeted growth in both economic and infrastructural sectors together. Owing to the critical feature of augmented financial resources, no one can conclude that the development of the financial industry has superior importance over the infrastructural sector.

The political corruption calls a harmony between the international political strategies and political leaders in the Horn of Africa as they usually exploit and manipulate any external efforts to their benefits and interests. There are time-honored tactics as 'Janus face' and 'isomorphic mimicry' that submit a facade to the world community and control the internal governing according to various standards, besides, creative stratagems of security rent-seeking.

Following the growth diagnostic approach, the reliance on aid for trade should be taken as a learning example for the sake of economic development and trade growth. Governments should have the principal role in such studies in order to further the efforts to achieve substantial pro-poor growth and to reveal the binding constraints that impede this growth.

5. Conclusion

The Horn of Africa faces many challenges that require intervention of various stakeholders, the national government and development partners in order for it to grow. For growth to occur in Africa, the private sector should concentrate on increasing skilled labor force, the public sector should invest in the provision of infrastructure (road and railway transport) and soft infrastructure (information communications technology facilities) and there should be improved accessibility to funds and essential public services in both the education and infrastructural sector. Governments should take the lead in reforming the industry and specifically in removing regulatory bottlenecks. In economies which are constrained by finance, an exogenous increase in investible funds, such as foreign aid and remittances, can significantly spur investment in productive economic activities. One of the significant characteristics of the Horn region is the poor social return. The relationship between economic growth and infrastructure has been deeply examined, and undeveloped infrastructure is considered a binding constraint for economic development and for doing business.

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