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Economic Development in Fragile and Conflict-affected States

Topic Guide

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Executive summary

The complex and reinforcing relationship between fragility/conflict and economic development is widely recognised, though not entirely understood. While trend observations suggest that low economic growth increases the risk of conflict and conflict reduces economic growth, this is not the case everywhere. Even where it does hold, the characteristics of economic growth and conflict differ widely across contexts.

Collier et al.'s (2009) opportunity-grievance-feasibility framework is generally considered useful for conceptualising the relationship between economic development and conflict, but opinions differ on which driving factors are most important and how they interact. The underlying causal mechanisms are disputed, as are the definitions of concepts (e.g. fragile and conflict-affected states) and the methods used to measure them (e.g. growth in GDP).

It is clear, however, that economic development and conflict interact at all levels throughout all stages of conflict and fragility in ways that have substantial, but diverse, effects on individuals, households, and private and public institutions. This guide explores theory and evidence of these interactions in various contexts.

Economic interventions in FCAS seek to address economic issues while contributing to wider statebuilding and peacebuilding objectives. Yet programme design is often based on assumptions that are not universally accepted or understood.

This Topic Guide draws on lessons from programmes and case studies to explore **which types of economic development interventions can be effective in FCAS** and which factors have contributed to successes and failures. It considers programmes spanning six economic development objectives:

- private sector development – business climate reform;
- private sector development – market development;
- job creation;
- agriculture;
- infrastructure;
- natural resource management.

Key lessons identified by this review include the need for economic programming to: be conflict sensitive; acknowledge trade-offs between economic and peacebuilding/statebuilding objectives; focus on gender and horizontal group impacts; generate stronger evidence; and incorporate statebuilding and peacebuilding objectives into programme design and M&E frameworks. Tools for addressing these challenges are identified, as are key evidence gaps to inform further research.

This Topic Guide focuses on the most fragile countries and countries where there are pockets of fragility. It focuses in particular on Afghanistan, Democratic Republic of Congo (DRC), Nigeria, Pakistan, Somalia, South Sudan and Yemen.

1 Key concepts and definitions

1.1 Fragile and Conflict-Affected States

While the definition of 'fragile and conflict-affected states' (FCAS) lacks consensus, most development agencies use the term to describe a fundamental failure of the state to perform functions necessary to meet citizens' basic needs and expectations. This includes the assurance of basic security, maintenance of law and justice, and provision of basic services and economic opportunities (see GSDRC Fragile States Topic Guide). DFID (2005) defines fragile states as 'those where the government cannot or will not deliver core functions to the majority of its people, including the poor.'

The terms 'fragility' or 'situations of fragility' are increasingly favoured, to acknowledge that fragility is not exclusively determined by the nature and boundaries of states, and that situations of fragility may exist within otherwise non-fragile states.

1.2 Economic Development

DFID (2014a) states that 'Economic development takes place when a country achieves long term, high rates of economic growth and when this growth is accompanied by a wider economic transformation that benefits the poor and shares prosperity broadly'. This requires: 1) an inclusive growth environment, which ensures that institutions, resources and infrastructure create an enabling environment for private investment to bring stable and robust growth, and; 2) a growth transmission mechanism, which ensures that growth occurs in sectors that can generate quality jobs and transform the economy. Although there is general agreement that economic growth is necessary for sustained poverty reduction, USAID and DFID (2014) note that it is not sufficient, as income distribution is also determined by particular patterns of growth.

Inclusive Growth

According to USAID and DFID (2014), growth is considered to be inclusive if it significantly reduces poverty. The World Bank (2009) broadly defines inclusive growth as an absolute reduction in poverty, associated with the creation of productive employment rather than direct income redistribution schemes. It gives equal opportunity to the majority of the labour force in terms of access to markets, resources and unbiased regulatory environments for businesses and individuals. Loayza and Raddatz (2006) argue that sectors that are highly labour-intensive, such as agriculture, construction and manufacturing, have the greatest impact on poverty alleviation through increased income growth opportunities. Raniere and Ramos (2013) add that inclusive growth must also consider the impact of the growth process among different ethnic and gender groups and across geographical regions. This understanding of inclusive growth therefore incorporates the concept of horizontal inequality, or inequalities between culturally formed groups, in addition to vertical inequality, which is inequality among households or individuals (Stewart 2002).

Transformational Growth

'Transformational growth' refers to growth accompanied by or resulting from a process of structural transformation, which involves the reallocation of labour and economic activity across the agricultural, manufacturing and service sectors (Herrendorf et al. 2013). Transformational growth requires a shift to higher productivity activities, and therefore involves technology adoption, resource mobilisation and a managed process of change (Salazar-Xirinachs et al. 2014).

Melamed (2013) proposes that social and environmental transformation are also required if economic growth is to lead to sustained prosperity for all. In this framework, social transformation involves greater distribution of growth's opportunities and benefits. Environmental transformation entails reducing unsustainable natural resource practices and the risk of future environmental disasters or climate change.

1.3 Peacebuilding and Statebuilding

Peacebuilding involves 'a range of measures targeted to reduce the risk of lapsing or relapsing into conflict, to strengthen national capacities at all levels for conflict management, and to lay the foundations for sustainable peace and development' (United Nations 2007).

Statebuilding is 'an endogenous process to enhance capacity, institutions and legitimacy of the state driven by state-society relations. Positive statebuilding processes involve reciprocal relations between a state that delivers services for its people and social and political groups who constructively engage with their state' (OECD-DAC 2008).

While the key objective of peacebuilding is creating conditions where violence will not recur, the focus of statebuilding is on developing effective government, based on law and general consent (Haider 2014).

1.4 Political Settlements

A political settlement is 'the forging of a common understanding, usually among elites, that their interests or beliefs are served by a particular way of organising political power' (Whaites 2008). This process involves contention and bargaining among elites, among elites and non-elites, among groups, and among those in the wider state and society (Di John and Putzel 2009). The nature of the settlement depends on the inclusion or exclusion of each of these groups.

1.5 Conflict Sensitivity

Conflict sensitivity means the ability to:

- understand the context;
- understand how the context affects the intervention and how the intervention affects the context; and
- act on the understanding of this interaction to avoid negative impacts and maximise positive impacts (APFO et al. 2004).

2 The relationship between fragility/conflict and economic development

The relationship between a country's economic characteristics and its fragility and susceptibility to conflict is complex and mutually reinforcing (see Holden and Pagel 2012). Collier et al. (2009) identify three related causal paths: opportunity (or 'greed'), grievance, and feasibility. This framework is generally considered to be useful for conceptualising the relationship between fragility and economic development. However, there is a lack of consensus as to which is the most influential factor during various phases of conflict at the macro, meso and micro levels. , Moving beyond distinguishing between these causal factors (Collier & Hoeffler 2003), Keen (2001) and Cramer (2002) emphasise the importance of considering how they interact with one another. In particular how greed might emerge from grievances and how the greedy may manipulate the grievances of others.

This section focuses on the three main strands in the literature: the influence of economic development on fragility and the susceptibility to violent conflict; the mutually reinforcing nature of continued fragility/conflict and its associated economic characteristics; and the effects of a legacy of conflict/fragility on economic development. Of course, the fluid nature of fragility and conflict cannot be adequately captured by this structure.

2.1 Susceptibility to Conflict

Macro-level

Some of the key debates regarding the relationship between macro-level economic development and susceptibility to conflict focus on:

- levels of per capita income and economic growth;
- different types of economic growth;
- the mitigating and exacerbating characteristics of trade;
- the overarching role that gender plays in this relationship.

Much of the work on economic development and conflict is driven by Collier and Hoeffler's work associating **high per capita incomes and economic growth with a reduced likelihood of conflict** (2003). An analysis of a global sample of civil wars between 1965 and2004 corroborates this. **Collier et al. (2009)** find that economic growth for conflict-affected countries averaged -0.5 per cent in the five years before the onset of conflict, relative to 2 per cent in peaceful countries. However, these findings do not explain the causal mechanisms at play in contexts where conflict occurred during periods of general growth, or where pockets of fragility prevail in countries with high growth rates, as is the case in Sri Lanka (Ganegodage and Rambaldi 2013) and Nigeria, respectively.

Miguel et al. (2004) find that economic growth has a strong negative relation to civil conflict. They use rainfall as an instrumental variable for economic growth to examine the relationship between economic growth and conflict for 41 African countries between 1981 and 1999. The authors argue that rainfall is an important determinant of economic shocks, and thus GDP growth, in the countries studied because they remain largely dependent on rain-fed agriculture. Ciccone (2011) critiques this approach, arguing that annual changes in rainfall should not be used for two reasons: because of their mean-reverting nature, and because the relationship between rainfall shocks and economic growth loses significance in the countries studied after 1999.

Dal Bó and Dal Bó (2011) also challenge the conclusions of Miguel et al. (2004), suggesting that not all economic growth reduces conflict. Different types of economic shocks can have divergent impacts. They theorise that while positive shocks to labour intensive economic activities can decrease social conflict, positive shocks to capital intensive activities can increase it. This theory is supported by Dube and Vargas's investigation into the conflict effects of global price shocks on coffee (labour intensive) and oil (non-labour intensive) in Colombia (2013). They find more inclusive growth in labour intensive commodities: reducing grievances; increasing the opportunity cost of engaging in violence; and making it less feasible for warring factions to recruit. Growth in non-labour intensive commodities, however, may produce narrow growth and exacerbate inequalities, creating opportunities for appropriation, and providing financing that makes war more feasible.

These findings suggest that attention should be paid to the different mechanisms through which economic growth influences conflict risk. Blattman and Annan (2014), however, challenge the findings of all four of these studies, suggesting that there are limits to testing theories of individual behaviour with macro-level data. Income shocks could also affect conflict and crime by lowering police and military capacity, by affecting the recruitment strategies and incentives of armed groups, or by inducing migration or increasing tension over limited resources, such as water.

While there is debate over its impact on fragility and conflict, **openness to trade** has been identified as one way in which economic shocks can be exacerbated or mitigated. Hegre et al. (2002) find suggestive evidence that trade has beneficial effects on growth and political stability. They find economic openness to be associated with higher growth, and although this growth may increase income inequality, this inequality is not associated with civil war. However, Brückner and Ciccone (2010) show that negative global commodity price shocks were associated with increased likelihood of conflict.

Gender has emerged as a prominent factor in sustaining economic growth, reducing poverty and increasing development effectiveness (Fennel 2009). Gender equality and the empowerment of women are important for a number of reasons— fairness, equality of opportunity, and economic well-being. Increasing efficiency and achieving the full potential of men and women alike is a precursor to prosperity (World Bank 2007). Studies have found that there is a relationship between the physical security of women and the relative peacefulness of states (Hudson et al. 2008: 35), and that there is a correlation between levels of conflict and gender inequality (Hudson et al. 2012; Institute for Economics and Peace 2013).

Meso-level

The issues and theories related to meso-level economic characteristics and conflict risk cover the:

- adverse effects of corruption and mismanagement, particularly with regards to natural resource management;
- role of the financial sector and of foreign direct investment (FDI) in mitigating or exacerbating conflict risk.

Ballentine and Haufler (2009) argue that **corruption and mismanagement** in business, particularly in relation to natural resources and large infrastructure projects, can exacerbate conflict risk. Contracting processes provide opportunities for mismanagement in a way that enriches a few at the expense of many, creating severe divisions. Similarly, the creation of modern industry can exacerbate existing grievances among competing groups by creating new winners and losers. Putzel and Di John (2012) link these issues to political settlements, claiming that where informal, sometimes illegal, activities provide opportunities for violent entrepreneurs to build and sustain power; this may result in an unconsolidated elite bargain, making the state very fragile.

The role of **extractive resources** in fuelling and financing conflict is highlighted by the UNEP et al. (2013), which gives the examples of the Democratic Republic of the Congo's untapped mineral reserves and Afghanistan's mineral deposits. Resource rich countries have been found to be at a higher risk of civil war and of encountering greater impediments to achieving both an early resolution of conflict and a peace that holds (Pally 2003 in UNDP 2008). Ross (2003) finds that civil wars are influenced by three characteristics of natural resources: lootability, obstructability and legality. While these authors do not debate the relationship between natural resources and conflict, they illustrate a need for more focus on the interaction between different types of natural resources and the context.

Ganesan and Vines (2004) find that whilst the nexus between resources, revenues, and civil war is critically important, a missing element of greed vs. grievance theory is the **role that governments of resource-rich states play**. They specify three ways in which elite capture by government can exacerbate conflict:

- control over resources gives such governments a strong incentive to maintain power, even at the expense of public welfare and the rights of the population ("Predatory Autocracies" e.g. the government of Angola which was largely dependent on oil during the latter years of its war with UNITA).
- unaccountable governments with large revenue streams at their disposal have multiple opportunities to divert funds for illegal purposes (e.g. the Liberian government under Charles Taylor).
- actions of third-party governments seeking to profit from resource-rich neighbours (e.g. the intervention of the Ugandan and Rwandan governments in the conflict in DRC, a conflict that itself has been impelled by competition for lucrative resources).

Barma et al. (2012) propose a two dimensional typology to help development practitioners identify a resource-dependent country's political economy trajectory. First is the degree to which, over time, policy stability and bargains can be enforced and deviations sanctioned. Second is the overall political inclusiveness of prevailing state-society relations, including a sense of whether collectivist or clientelist welfare is privileged over purely elite interests.

Addison et al. (2001) focus specifically on the relationship between a country's **financial sector** and the occurrence and resolution of conflict. Narrow development, which is at the root of conflict, is often financed in a way that exacerbates grievances. They identify three processes through which this occurs:

- in agrarian societies with high income- and land- inequality, agrarian elites may use their control within the financial system to further leverage their existing wealth, exacerbating inequalities.
- state banking systems may be used to finance private accumulation rather than investment, leading to economic decline and potentially conflict if the bank collapses under bad loans.
- weak financial regulation may facilitate the accumulation of wealth by means of fraud, destroying savings and living standards and increasing the risk of conflict.

Evidence on the **relationship between FDI and conflict remains inconclusive** (EC 2009). While Polachek et al. (2012) find that trade and FDI complement each other in reducing conflict risk, Gissinger and Gleditsch (1999) point out that despite its positive effects on economic welfare, FDI can generate grievances through its adverse effects on distribution and political unrest in poor countries. Alternatively, Barbieri and Reuveny (2005) find that FDI in the least developed countries reduces the duration of civil wars but not the likelihood of their onset. These opposing arguments might be reconciled by the recognition that overcoming state fragility and building strong institutions, as well as developing regulation to promote quality investments, are important to capture the economic and conflict-reducing benefits of FDI. Massa and te Velde (2011) suggest that development finance institutions can play a role in catalysing FDI that is beneficial in fragile contexts, providing important demonstration effects for other investors with regards to investment in higher-risk context (Dalberg Global Development Advisors 2010).

Micro-level

The literature on the influence of microeconomic characteristics on conflict risk focuses on the:

- mechanisms through which economic development might affect conflict (opportunity, grievance, feasibility);
- role of economic inclusion irrespective of average economic conditions.

Growth can stimulate **job creation**, which reduces grievances and incentives to engage in conflict (Collier, et al. 2009). In Afghanistan and Pakistan, the US Department of State (2010) described job creation as key to undermining the appeal of extremists in the short-term and necessary for sustainable economic growth in the long-term.

However, micro-level assumptions connecting unemployment to increased conflict risk (Berman et al. 2010) are debated. Using survey data from Afghanistan, Iraq and the Philippines, Berman et al. (2011) find no evidence that employed young men are less likely to participate in political violence. They suggest two plausible explanations: as local economic conditions deteriorate, government allies are able to gather intelligence at a lower cost; and that efforts to enhance security tend to damage the economy. Other studies of criminal and revolutionary organisations, such as Levitt and Vankatesh (2000), cast further doubt on the opportunity-cost approach, suggesting that status and future prospects for future riches and power, rather than wages, are the primary economic motivations. Mercy Corps' (2015) research on the key drivers of youth's propensity toward political violence in Sub-Saharan Africa finds that in most countries an individual's employment status has very little effect on participation in, or willingness to participate in violence. Other factors related to government institutions and poverty levels were more important and relevant across contexts.

Growth may determine **government popularity**, influencing grievances and the willingness of the population to sympathise with a particular side (Collier, et al. 2009). Institutional breakdown and a failure of the social contract are often associated with poverty and growth failure (Murshed & Tadjoeddin, 2009). Alternatively, Fearon and Laitin (2003) claim that low or falling national income can weaken or signal weak central government, hindering the ability of governments and their militaries to repress insurgencies. Each of these mechanisms generally make it easier for armed militia groups to recruit fighters (Miguel, et al. 2004), making conflict feasible.

Collier et al. (2009) argue that **financial and military feasibility** is the key determinant of whether a rebellion will occur. Specifically, they argue that natural resources, when predated by rebels, can finance the escalation and sustainability of rebellion. However, they also acknowledge that the presence of natural resources might provide motivation for rebels to capture the rents both during and after a conflict, or that grievances in resource-rich countries may be stronger if the governments of these countries do not need to tax their citizens as much and are therefore less responsive.

This research faces strong criticism. Nathan (2005) identifies multiple empirical, methodological and theoretical issues in its analysis including the use of inappropriate proxies; unsubstantiated explanations of results; incomplete, inaccurate and biased data; and theoretical and analytical flaws. Similarly, Cramer (2002) criticises the feasibility argument, arguing that the method of paying for a war should not be confused with its cause; natural resources played a crucial role in the eastern DRC conflict, but the conflict's origins had connections to the aftermath of the Rwandan war and genocide, as well as the collapse of Mobutu's domination of Zaire. The interaction between financial incentives and long-standing ethnic, political and regional tensions also play a role. Klare (2001) argues that grievances as a result of governments exploiting resources occupied by a particular indigenous group are most likely to occur in developing countries with few sources of wealth, and weak and divided governments that are perceived as corrupt.

Lack of inclusion in growth is considered a risk to conflict, particularly where there are horizontal inequalities related to regional or ethnic disadvantage (Stewart 2010). Horizontal inequalities may motivate not only deprived groups, but also relatively privileged groups who wish to protect their share of resources. Ostby (2008) confirms this hypothesis through an analysis across 55 countries from 1986-2003. She finds that countries with severe economic and social horizontal inequalities, measured by average household assets and average years of education, faced a significantly higher probability of conflict. Horizontal inequalities between ethnic groups can also promote ethno-nationalist conflict. Ethnic groups determined to be either affluent or poor relative to the national average are both more likely to engage in conflict (Cederman et al. 2010).

The theories presented on the origins of conflict and how they relate to economic development remain **incomplete and untested**. Blattman and Miguel (2010) point out that the literature rarely considers alternatives to purely rational theories. Cramer (2002) debates the usefulness of analysis resulting from rational choice theories of armed conflict, arguing that they ignore a range of social, cultural and historical factors and violate the complexity of individual motivations. Nathan (2005) specifically criticises the influential work of Collier and Hoeffler for failing to adequately address politics and history.

2.2 Continuance of Conflict

Macro-level

Literature on the relationship between macroeconomic characteristics and fragility during periods of continued conflict is centred on:

- how economic conditions influence the duration of conflict;
- the growth effects of conflict;
- the mechanisms through which conflict influences growth;
- the sector-specific effects of conflict.

Average economic growth rates tend to be low in FCAS, and particularly in conflict situations. While GDP grew at an average of 4.6 per cent in other low-income countries in 2007, it averaged only 2.6 per cent in those countries defined as fragile (OECD 2009). Data from 1960-2000 suggests that longer conflicts are associated with conditions of low initial per capita income, high inequality, and a moderate degree of ethnic division; while shorter conflicts are associated with a decline in the prices of primary commodity exports and external military intervention on the side of the rebels (Collier et al. 2004).

A number of studies attempt to estimate the **effect of conflict on economic growth**. Collier and Hoeffler (2007) estimate that each year of conflict slows down per capita GDP growth by 2.2 per cent, with an additional 18 per cent of GDP on military spending during and after a war. Gates et al. (2012) produce a number of stimulations showing how conflict depresses GDP per capita. Polachek and Sevastianova (2010) find that the effect of conflict on growth is greater for high-intensity (measured by fatalities) conflict as well as for non-democracies, low-income countries and countries in Africa. Their findings further suggest that conflict depresses growth more significantly in the short term, as economies recover from the adverse effects in the long run. Imai and Weinstein (2000) find that wide-spread civil wars cost five times more than narrowly fought internal conflicts.

Collier (1999) suggests that **mechanisms** through which civil wars hurt the economy include the:

- destruction of resources;
- disruption of social order;
- diversion of public expenditure;
- discouragement of saving and investment; and the
- shifting of assets out of country.

If governments resort to inflation to raise revenue, as documented in the DRC (IMF 2001), the macroeconomic environment may further decline during civil war. Of course, this can further exacerbate post-conflict economic conditions (Adam et al. 2008). Informal employment has been found to be a key livelihood source amongst urban populations in Kinshasa, DRC (Iyenda 2005), Afghanistan (Beall and Schutte 2006), and Sudan (Pantuliano et al. 2011).

Collier (1999) also shows **that various sectors of the economy** are differentially impacted by conflict. He argues that capital -intensive sectors, (manufacturing, construction etc.), tend to contract at a faster rate than GDP as whole, whereas labour-intensive sectors (subsistence agriculture), tend to expand. However others find that the agriculture sector also suffers during periods of conflict. Analysing conflict and food production trends in Sub-Saharan Africa over the period 1970-93, Messer et al. (1998) find that in 13 of 14 countries experiencing conflict, food production was lower during war years. Kimenyi et al. (2014) also identify adverse impacts of conflict on agriculture in Mali and Nigeria, including a reduction on human mobility, displaced labour; and access to input supplies and markets for sale to consumers.

Buchanan-Smith and Fadul (2008) find that the conflict in Darfur had a negative impact on traders including disrupted supplies, damaged market infrastructure and trader networks, and inflated transaction and transport costs. Increased government taxation in response to the contracting economy created incentives to trade illegally and businesses additionally faced 'informal taxes' to militias. As a result, an estimated 20-30 per cent of urban traders went out of business, livestock and cash crop trade contracted and the ethnic concentration of traders intensified.

Meso-level

Key debates on the relationship between meso-level economic characteristics and conflict include:

- how conflict constrains business activity;
- how the war economy can provide benefit to certain powerful interests;
- the ways in which business can contribute to peacebuilding;
- the context-specificity of the relationship.

FCAS tend to be poor environments for business operation, accounting for 20 of 25 of the worst countries in the world for 'doing business' (Peschka 2011). While the average cost of starting a business is 61 per cent of per capita GDP in other low-income countries and 26 per cent of GDP in middle-income countries, this figure rises to 184 per cent in conflict-affected countries in Africa (World Bank 2011). Collier and Duponchel (2010) argue that the most important impact of civil war violence on firms and employment is the **disruption of production** through the flight of employees; the unreliability of transport; and the fear of looting. Other challenges for business start-up and survival include infrastructural damage, though this may be limited if infrastructure in initially underdeveloped (Collier and Duponchel 2010); market contraction; a lack of formal state protection; and extortion, illicit taxation and theft (Mallett and Slater 2012). The financial sector and who has access to finance can play a key factor in the length of a war (Addison et al. 2001).

Despite these adverse impacts, certain powerful economic interests benefit from **profitable opportunities** provided by conflict (Ballentine and Haufler 2009), which can influence the duration of conflict (Collier and Hoeffler 2000). Using country case studies, including Afghanistan, DRC, Nigeria, OPT and Somalia, Banfield et al. (2006) find that business responses to violent conflict are often mixed. Keen (2009) similarly points out that different kinds of business have different interests in peace. He notes that businesses with an interest in peace are those hindered by inhibited production and reduced local demand caused by war, which include most kinds of industrial and agricultural production and services.

However, some businesses, potentially those involved in the exploitation of low-technology and high value commodities that remain extractable during conflict, are deemed indifferent to peace. A minority of businesses, perhaps with access to means of violence, are more profitable during conflict and may therefore have an interest in preventing the re-establishment of state authority and being hostile to peace. These businesses may make higher profits from opportunities in food trading at times of artificially high food prices, arms trading, drug trading, and natural resource exploitation (Keen 2009).

Since 1990 at least eighteen violent conflicts have been fuelled by the **exploitation of natural resources**, with at least forty percent of all intrastate conflicts having a link to natural resources over the last sixty years (UNEP 2009). The exploitation of natural resources and related environmental stresses play a role in phases of the conflict cycle (at a national and sub-national level), from contributing to the outbreak (e.g. Sudan, Liberia and Sierra Leone) and perpetuation of violence (e.g. Afghanistan, DRC, Somalia), to undermining prospects for peace. In Nigeria, the oil sector accounts for approximately 95 per cent of export earnings and over 80 per cent of federal government revenue, but for nearly two decades the Niger Delta oilfields have faced insurgency and conflict (Frances et al. 2011) with unemployment and underemployment rates higher than in any other part of Nigeria. Frances et al. (2011) identify multiple factors working against stability:

- structural factors the ways in which society, government, and the political economy work to make the region vulnerable to instability);
- driving factors (grievances that emerge from the structural factors) and;
- provocating factors (which exacerbate latent conflict by sparking violence and crime, often for profit).

The contribution of business to peacebuilding is another focus within the literature (see Ford 2015). Jyoti et al. (2006) suggest that the private sector can help build peace because it is able to mobilise resources, it is crucial to economic development, and it is 'neutral. Although this concept of neutrality is contested by Keen (2009), Lyon et al. (2006) show how the marketplace in southern Nigeria can be a 'mediation space' facilitating reconciliation between disputing groups who must work together to secure livelihoods

Recognition that the ways in which businesses are intertwined with, and adapt to, conflict dynamics are complex (International Alert 2006a; 2006b) underscore debates around the contribution of business to peacebuilding. Yusuf (2006: 490) illustrates the conflicting roles of trade in Somalia which adapted to periods of chronic and the lack of effective government, stating:

> *While feeding into conflict and containing some elements of coercion, trade also contributes to the mending of broken ties and the removal of barriers between conflicting parties. Business interactions can create a culture of interdependency and reciprocity that underpin networks of cooperation in all aspects of business.*

Nenova and Harford (2004). argue that Somali entrepreneurs compensated for the lack of effective government regulation by 'importing governance' from foreign institutions; using clans and other local networks to assist with contract enforcement, payment and fund transmission; and simplifying transactions. In Afghanistan, while transport merchants backed the Taliban, they also frequently undermined its economic blockade of Hazarajat by keeping trading networks open (Goodhand 2004).

Understanding the structure of the **political economy** of a given context is therefore seen as crucial to identifying the mechanisms through which particular economic factors interact with conflict (Humphreys and Weinstein 2009). Goodhand (2008) illustrates how Afghanistan's drug economy has varying impacts on peacebuilding in different regions based on differences in power relations and models of extraction; strengthening centre-periphery political relationships in the north and enabling the Taliban to generate political capital in the south.

Micro-level

Literature on the micro-level consequences of conflict focus mainly on the:

- harmful consequences of conflict on the economic lives of individuals and households;
- resulting coping strategies employed by individuals and households;
- ways in which outcomes are heterogeneous within the affected population.

Mallett and Slater (2012) provide a detailed summary of the literature surrounding the processes by which conflict affects the economic lives of individuals, including the harmful **depletion of physical capital**, through infrastructural depletion and asset loss, as well as human capital. Blattman (2010) suggests that the extent of damage to physical capital depends on the nature and extent of the war, contrasting the limited effects of civil war in Ethiopia to the widespread losses experienced in Liberia. Evidence from northern Uganda suggests that conflict directly caused losses of cattle, homes and assets (Annan et al. 2006), and indirectly led to reductions in per capita expenditure due to increased perceptions of risk (Rockmore 2011). Research from the DRC also finds a reduction in household asset ownership and worsening living conditions for conflict-affected households (Pellillo 2012). As violence adversely impacts the kinds of assets a household can draw on (Lautze and Raven-Roberts 2006), it also affects the types of strategies they can employ to manage risk.

Human capital depletion – increased mortality and disability rates- results in a diminished labour stock (Blattman 2010; Mallett and Slater 2012), while also depressing the rate of human capital formation. Adverse effects include those on child health outcomes, such as height-for-age, which are correlated with productivity, wages and long-run growth (Deloach and Lamanna 2011), as well as its strong negative association with educational outcomes (Justino 2011). Even minor shocks to educational access can lead to long-lasting detrimental effects on human capital formation, with girls and secondary education affected disproportionately (Justino 2011).

Mallett and Slater (2012) highlight **coping strategies** including: risk minimisation (cultivating low risk, low value crops); risk avoidance (migrating to urban areas); risk spreading (diversifying income sources); and at times increasing engagement with markets (seeking arbitrage opportunities in and around Internally Displaced Persons Camps). In Darfur, Sri Lanka and the Occupied Palestinian Territories (OPT), farmers were found to minimise risk during conflict by avoiding the danger of open fields or extended periods away from home, and instead cultivating small plots of less labour-intensive crops (Jaspars and O'Callaghan 2010). Paradoxically, the decision to reduce mobility has been found to increase risk exposure for certain groups. Abdelnour et al. (2008) show that in Juba, men's decisions to discontinue dangerous travel to collect firewood made households more dependent on income generated by women, whose activities exposed them to physical abuse and sexual violence. Some evidence suggests that young people opting to join insurgency groups do so with the hope to better provide for their families, as Seddon and Hussein (2002) illustrate in Nepal.

On the topic of risk avoidance, which often involves migration, Jacobesen (2002) argues that the livelihood strategies followed by displaced people depend on three types of resources: arable land, local resources and assets; transnational resources, such as capital or information; and resources from international assistance. Abdelnour et al. (2008) investigate how livelihood strategies differed before and after conflict for IDPs in Lobonok Camp in Juba. They make a link between changes in livelihood and grievance, finding that in an area of Darfur, the drastic change in the livelihoods of displaced people resulting from relocation to a camp caused feelings of injustice, loss, trauma and marginalisation.

Risk spreading through the diversification of income and consumption sources is another documented household coping strategy (Mallett and Slater 2012). Jaspars and O'Callaghan (2010) found that IDPs in Darfur and in Sri Lanka resorted to small-scale income generating activities including brick making, collecting wood, domestic work, petty trade and wage labour during conflict. Families additionally spread themselves over a number of locations to pursue different activities and access an array of livelihood options. Some evidence suggests that social networks provide an important means for spreading risk during conflict, for example, travelling to markets in groups (Haver 2009). However, social networks and group cohesion may exclude some at the same time as they benefit others. Jacobsen (2002) argues that within-group clan affiliations were simultaneously important for livelihood support in camps in northern Kenya, and exacerbated tensions between groups attempting to protect or access common resources.

Studies from Somalia (Alinovi et al. 2007), DRC (Raeymaekers 2006), OPT (O'Callaghan et al. 2009), and IDP camps in northern Kenya (Jacobsen 2002) indicate the **importance of access to markets** for the sale and purchase of goods to sustain livelihoods. However, greater market engagement or changing livelihoods is also associated with risks. Tyler (2008) notes that women in Somalia turn to riskier livelihoods including rubbish collection and prostitution, whereas Jacobsen et al. (2001) observes that displaced persons in Khartoum engage in illegal practices such as brewing and prostitution.

Women are considered to be amongst the most vulnerable to negative impacts of war (see Human Security Centre 2005; Byrne 1996; Goldstein 2001). Directly, as fatalities and casualties, and indirectly through the breakdown of family and community structures – including as a result of men rejecting their wives if they have been raped, or being cast out of communities (or even killed) to restore honour (see Byrne 1996; Krug et al. 2002). In particular women and girls are far more vulnerable to sexual assault and predation than men (HSR 2005). Bastick et al. (2007) observe that beyond the immediate effects of sexual violence, armed conflict can also have more indirect and long-term consequences, which persist once the conflict is over. Perpetuation of a tolerance of sexual abuse against women and girls is potentially fostered by unemployment, poverty and social exclusion as well as child witnesses to violence becoming more susceptible to the use of violence in their own relationships as adults (see Abrahams and Jewkes 2005; Kishor and Johnson 2005).

Brück and Schindler (2008) take a gendered focus, identifying three channels through which mass violent conflict affects households:

- boundaries may become permeable as members may die;
- livelihood earnings can become constrained
- intra-household relations and gender roles change with the allocation of tasks, particularly when women become the head of a household.

In post-war settings, female-headed households were found to comprise 30 percent or more of all households (El-Bushra 2003). Research by UN Women (2012) corroborates these findings, providing evidence that the percentage of female-headed households often increases during conflict. Paradoxically, at the same time as women become more vulnerable and dependent, their household and community welfare can increase because of greater participation in the labour force. This result is dependent on the type of work in which women engage. A key gap in the data on female headed households highlighted in this study is the poor quality of household survey data, which prevents quantitative econometric analyses comparable with other conflict literature.

Anderlini (2006) finds indicative data that households often increase in size following conflict. However, she highlights that this discussion almost entirely revolves around female-headed households, although even less is known about single male headed households, which may be worse off, as women tend to have better coping mechanisms.

There is a wide body of literature (Friedemann-Sánchez 2006; Petesch 2011) which aims to identify the drivers of progressive shifts in gender norms regarding women's economic empowerment and their use and control of productive assets (Domingo et al. 2013). However, there are potential safety concerns of women being pushed into the economy when perceptions and acceptance of, revised gender roles remain unchanged (Petesch 2012). The literature review undertaken by Domingo et al. (2013) identified three potential opportunities for women during conflict: increased access to and control of assets; improved income-generating opportunities; and the introduction of formal policy and legal reforms.

2.3 Legacy of Conflict

Macro-level

The key issues discussed in the literature around conflict legacy effects and macroeconomic conditions include:

- the challenges for economic development in such a context;
- risk factors for conflict relapse;
- the factors that help to enable economic development.

Some of the identified challenges for economic growth in conflict legacy environments include the risk of relapse into conflict due to high levels of political, economic and legal risk (Collier et al. 2008) as well as large, and particularly horizontal, inequalities (Stewart 2010); and a damaged economy resulting from the destruction of physical, social and human capital (Collier 1999) and a shift towards subsistence among the rural population (Adam, et al. 2006).

Reducing risks, particularly the risk of further violence, and re-establishing basic security, is considered a precondition for successful economic and social recovery (Collier 2006; UNDP 2008). However, while there appears to be strong evidence of the link between economic growth and the risk of the onset of conflict, Suhrke and Buckmaster (2006) debate whether this argument applies equally to the risk of new violence in differing post-conflict contexts. They find **no obvious relationship between economic growth and peace** in case studies of seven post-conflict countries comprising of Bosnia, El Salvador, Guatemala, Nicaragua, Cambodia, Mozambique and Rwanda.

Collier et al.'s (2008) analysis suggests that economic development is associated with a reduced risk of conflict relapse over a long period of time. They imply that risks are higher for low-income countries, but also that economic performance in countries emerging from conflict is an important factor. In addition to its effects on the level of income, growth is directly and significantly associated with reduced risk in the year it occurs. Data from some of the focus countries of this topic guide illustrate the difficulty of generalising the relationship between economic conditions, imperfectly proxied by GDP, and conflict. In 2011, per capita GDP (USD) and GDP growth (annual percent) were 576 and 8.2 in Afghanistan, 231 and 6.9 in DRC, 1194 and 2.4 in Pakistan, and 1361 and -10.5 in Yemen (Mallet and Slater 2012).

Chauvet and Collier (2007) find that finance from resource rents has the tendency to lengthen the period of state failure, illustrating that the **structure of growth** is important for economic recovery and statebuilding. Significantly, illegal economic activities have been identified as major employers and sources of economic growth, even if this is not captured by GDP figures (Mallet and Slater 2012). For example, in 2009 there were an estimated 2.4 million people in Afghanistan involved in opium cultivation with an estimated net export value of US $3.4 billion (UNODC 2009).

David et al. (2011) investigate the factors related to cross-country growth differentials for 30 post-conflict countries in Sub-Saharan Africa. They find changes in the terms of trade to be the strongest correlate of economic performance, followed by institutional quality, particularly limitations on the discretionary power of the executive branch. These changes can affect economic growth through increasing the return to savings or providing incentives to shift the sectoral allocation of resources. However, this relationship may also be driven by the tendency for conflict legacy situations to be linked to export booms (Collier 2009). Foreign aid does not seem to play a substantial role in recovery (David et al., 2011) but if it does, then external factors or 'luck' play an important role (Collier and Hoeffler, 2002)

There is evidence that the most rapid economic recovery and poverty reduction takes place in communities where **women** report **higher levels of economic empowerment** (Petesch 2011). Favourable conditions include some semblance of local security; gender norms that are generally supportive of women working for pay; the ability of both sexes to access and benefit from active local markets; and local governance which is able to attract and make good use of aid and other external resources (Petesch 2012). The linkages between gender, violence and inclusive decision making are being increasingly explored (see Wright and Tielemans 2014) with gender dynamics recognised as playing a key role in the economic recovery process (Domingo et al. 2013). Gender inequality is seen as being an essential consideration in statebuilding and peacebuilding strategies (DFID 2010) without which systems which discriminate against women can become further entrenched (see Kangas et al. 2014).

There is growing evidence of the importance of **inclusive political settlements** in enabling a sustainable exit from conflict, particularly in contexts where exclusion has been a major conflict driver (Castillejo 2014). Recent research has emphasised that the inclusiveness of political settlements affects the potential for political stability (Mcloughlin 2012). According to the OECD DAC (2010), political settlements determine three key elements of political processes: accountability mechanisms, levels of political inclusion and rules of political participation. Donors face a tension between supporting elite based political settlements (Nigeria, Afghanistan and DRC) that can provide stability, and pushing for an inclusive settlement (Zambia and South Africa) which has consequences for economic development (Castillejo 2011). As highlighted by Gutierrez (2011), a political settlements framework is useful both in explaining slow growth and the persistence of localised conflict.

Meso-level

The literature on meso-level economic activity in countries with a legacy of conflict concentrates on:

- the conflict-legacy challenges faced by the private sector;
- the ways in which the private sector my spoil peacebuilding and statebuilding objectives;
- the role that the private sector can play in economic recovery and stabilisation.

Conflict legacy environments are characterised by an array of economic, political and security, social and demographic factors that pose **challenges for the private sector**, which are summarised in Mac Sweeney (2008). These *economic factors* include the reduction in both foreign and local investment, sectoral shifts, and the legacy of a war economy. *Political and security-related characteristics* include low legitimacy and capacity of the state, residual violence and a lack of a functioning judicial system. *Social characteristics* include tension between groups, weak or disrupted social networks, fractured families and communities, low levels of trust, and psychological trauma conflict-affected individuals. *Demographic characteristics* include a high number of female-headed households and more women in the workforce, high numbers of incapacitated and disabled people, increased levels of HIV/AIDS due to sexual violence, population displacement, high numbers of unemployed youth, and low educational levels. In the short-term, whilst conflict-legacy economies suffer from a major decrease in an already short supply of skills, there is also significantly increased demand for these skills (Collier 2006).

Not all firms face the same challenges. As discussed in the previous section, some influential business may have an interest in the continuation of certain types of violence even once ‘peace’ is declared (Keen 2009). Cooper (2002) further investigates this idea, arguing that the political economy of conflict trade can influence the nature and effectiveness of post-conflict peacebuilding and reconstruction. Profits from conflict trade can provide the incentive to fund a return to war and spoil peace. He further argues that even where peace agreements hold, the influence established by war elites over key economic sectors during the conflict may result in the effective continuance of war economies under conditions of non-war.

The private sector also decreases the risk of relapse into conflict by driving diversification away from reliance on a few key sectors dominated by a few powerful actors decreases the risk of relapse into conflict (Carnahan et al. 2006). Massa and te Velde (2011) suggest that FDIs, specifically, can support stabilisation by acting counter-cyclically and channelling investment.

Natural resources are considered to be one way of reenergising an economy emerging from conflict (Harwell 2010). However, the extent to which extractive industries can catalyse positive economic and social outcomes hinge on the quality of the governance (Dietsche et al. 2013, ICMM 2014). Delechat et al. (2015) find that tapping natural resource wealth for inclusive growth in FCAS does hold great promise in unlocking fiscal space to address infrastructure gaps and promoting inclusive growth. Necessary factors include sound fiscal regimes, effective and transparent natural resource administration, and a sustainable public investment scaling up strategy.

The difficulty is in using extractive resources to contribute to economic revitalisation and reconciliation at all levels of society, while avoiding new forms of social or environmental grievances, to create inclusive employment (UNEP et al. 2013). Such improvements are likely to come about not only as a result of government expenditure but also as a result of the direct activities of extractive industry projects. These impacts will not occur on their own, and close collaboration between government and the private sector is often key (Dodd et al. 2015), as is a consideration of macro-economic effects and careful economic, financial political and institutional management, to obtain growth (UNEP 2009).

Micro-level

The main micro-level issue in conflict legacy environments identified is the effect of conflict on the economic lives of individuals and households.

There is suggestive evidence that war has an ongoing adverse impact on **physical and human capital** even after the cessation of conflict, leaving certain segments of the population at a long-term disadvantage (Mallett and Slater 2012). Although Ibanez and Moya (2009) suggest that households have difficulties recovering from asset losses resulting from conflict, other research suggests that legacy effects are context and group dependent. Bellows and Miguel (2009) find no evidence of lasting negative impacts of the Sierra Leone civil war on school enrolment levels or of lasting impacts on household socioeconomic status measures. Certain segments of the population have been found to suffer worse and longer-term consequences for human capital accumulation, including young girls (Shemyakina 2006), forced migrants (Kahanec and Yuksel 2010), low-income households (Foltz and Opoku-Agyemang 2011) and socially disadvantaged ethnic groups (Chamarbagwala and Moran 2011).

Evidence on whether **livelihoods** revert to what they had been prior to war is mixed. There is some indication that households resettle back into pre-conflict social and economic patterns when stability is re-established (Adam 2008), but this type of analysis views war and peace as two distinct and disconnected phases (Mallett and Slater 2012). Other research suggests that livelihoods do not 'normalise' once war has ended, particularly for youth. Young people in northern Uganda who had grown up in IDP camps were found to lack the desire to return to agricultural livelihoods (Women's Refugee Commission 2008). Similarly, young people in the DRC were found to prefer urban living to occupation in agriculture, although they were at a severe disadvantage in accessing decent jobs in an urban labour market controlled by a group of powerful gatekeepers (Raeymaekers 2011).

3 Key approaches

Economic approaches feature prominently in peacebuilding and statebuilding practice (New Deal 2011; UNDP 2008; USAID 2009; World Bank 2011). According to USAID (2009), 'The purpose of economic growth programming in post-conflict countries is both to reduce the risk of a return to conflict and to accelerate the improvement of well-being for everyone, particularly the conflict-affected population.' While economic growth is not the only solution to challenges posed by a legacy of conflict, economic approaches can play a significant role and therefore need to be integrated into wider restructuring and stabilisation programmes.

This section explores six economic development approaches:

- private sector development - business climate reform;
- private sector development - market development;
- employment creation;
- agriculture;
- infrastructure;
- natural resource management.

However, other factors, such as macroeconomic policy, should not be overlooked. It is important to note that these interventions often take place as part of wider programming, and there is often substantial overlap. Most intervention-specific studies focus on a 'post-conflict' environment, but stages of conflict are often fluid and difficult to define.

Box 1: Lessons from case studies of economic development programming in FCAS

<u>Programmes with multiple objectives often face difficult trade-offs:</u>

The Roads in the East project (RinE) in DRC faced a trade-off between the goals of stabilisation and employment generation. In this case, stabilisation and fast construction were prioritised, using more equipment, instead of employing more people. A holistic approach is necessary to identify possible synergies while acknowledging these potential trade-offs.

<u>Stakeholder engagement is crucial for achieving buy-in and sustainability:</u>

A review of the AICF programme in Afghanistan found that staff engagement and regular communication led to greater understanding of the programme, enabling a stronger working relationship with beneficiaries. The inclusion of the local community in choosing priority public projects for the Labour Intensive Works Programme (LIWP) in Yemen meant that people felt the programme addressed relevant local problems. However, members of the local steering committee in the RinE project were given little say in implementation decisions, which limited the potential for building social cohesion through collaboration.

<u>Programme design must be flexible and adaptive to FCAS:</u>

A limited willingness and capacity of project partners, particularly the government challenged the Afghanistan Investment Climate Facility. The implementation of an agricultural programme in Afghanistan (SASA) suffered from local political infighting, causing delays and ultimately limiting capacity-building opportunities. The RinE project included no conflict appraisal in its design as a result it was hampered by the security situation, and procurement procedures were difficult to apply within the context. The SEED II programme was found to give poor consideration to the political economy, with programme benefits remaining susceptible to local elite capture.

Local capacity and willingness to implement programmes may be low, requiring capacity building and higher resource allocations. Similarly, a consideration of the security situation and local political context needs to be taken into account.

M&E is key to ensuring the early detection of problems and to facilitating learning, but systems, objectives and indicators need to be appropriate and manageable within a FCAS context:

The AICF programme faced challenges with M&E results management, while also finding it difficult to judge results of indicators strongly dependent on factors external to the programme. A review of the Sustainable Employment and Economic Development Programme II (SEED II) in Somalia found the need for stronger reporting and data management, specifically performance indicators.

Statebuilding, peacebuilding and conflict sensitivity objectives were seldom made explicit in these examples and were rarely incorporated into M&E frameworks and programme assessments. As a result, lessons are primarily limited to those focused on more immediate economic results and implementation processes. Wider objectives need to be made explicit in programme design and built into M&E frameworks.

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3.1 Private Sector Development

Private Sector Development (PSD) encompasses a wide range of economic development programming in FCAS, including business climate reform and market development. The private sector is important for creating jobs, improving the population's purchasing power, stimulating the local economy, and building trust between potential business partners. It also tends to recover faster than government following conflict (de Vries and Specker 2009). The key priorities for private sector development in post-conflict environments are creating an enabling business environment that encourages sustained growth, and strengthening local enterprises to compete in the economy (USAID 2009; de Vries and Specker 2009).

According to Mac Sweeney (2008), PSD can have a significant impact in post-conflict situations if implemented in a way that is sensitive and addresses contextual social, economic and political characteristics. Although there is general agreement that PSD can contribute to peacebuilding, there is debate over its sequencing within the conflict recovery process (De Vries and Specker 2009). While DFID and the IFC advocate starting PSD early, the UN places it later in a process of longer-term recovery efforts. However, UNDP (2008) recommends initiating reforms as early as possible, including; prioritising governance and security reforms; empowering local entrepreneurs; and promoting foreign investment. Curtis et al. (2010) note that PSD programming has sometimes significantly and dangerously underestimated the role of PSD in conflict. They argue that it should seek to maximise impact on peacebuilding beyond economic development, and also focus governance, building security, stability and trust, and developing infrastructure.

Mac Sweeney (2008) outlines the debate between the two PSD main schools of thought:

- The systemic approach encourages indirect support to the private sector through improving the investment climate in which it operates. Factors include the macro-economic environment, the rule of law, business regulations and the fiscal regime.
- The interventionist approach encourages direct intervention to generate real change in the way that markets function (Saperstein and Campbell 2008). Activities can include: promoting market linkages, value chains, business associations and community groups; providing access to employment, vocational training and microfinance; and targeted support.

Proponents of the systemic approach argue that development agencies should not be involved in 'picking winners', while interventionists argue that a lack of political will often means policy-level changes have little impact on the ground. Nonetheless, there is a high degree of overlap between these two approaches.

Business Climate Reform

Business climate[1] reform aims to reduce the costs and risks – for example, inappropriate regulation, excessive taxation, and lack of fair competition – that restrict investment and the development of markets in order to increase economic growth, reduce poverty and improve socio-economic welfare (Channell 2010). It addresses the policy, legal, institutional, regulatory and cultural framework within which individuals and firms operate (Channell 2010; DCED 2008). Much of the literature on the systemic approach to PSD refers to the *investment* climate; – factors such as regulations, laws, infrastructure and corruption levels (Walton 2010b) that influence incentives and opportunities to invest and create jobs (Rao 2010).

The literature often fails to disaggregate the 'investment climate' (Rao 2010). Yet, a generalised understanding of what constitutes a strong investment climate may be inaccurate; conditions favourable to one particular sector or firm may be unfavourable to another or affect investment elsewhere. Mills and Fan (2006) note that, in the post-conflict period, the telecoms sector tends to grow first, followed by energy and transport, then water and sanitation. Further, Moore and Schmitz (2008) argue that policies favourable to business are not necessarily, or proportionately, good for investment and growth.

While reforming the business climate may create opportunities for peacebuilding, it also poses significant challenges and risks in conflict environments. There is debate over which social, political and economic factors have prevented the development of a strong investment climate and therefore need to be addressed (Rao 2010). The traditional view is that enforceable property and contract rights, and business laws, regulations and institutions lay the foundations for economic opportunity and a business-enabling environment (Channell 2010). However, others question whether this approach is appropriate in poor countries with weak institutions. Substantial increases in investment may also take place through 'hand-in-hand' arrangements between investors and politicians (Moore and Schmitz 2008).

Market Development

According to the SEEP Network (2007), market development is 'a sub-field of enterprise and private sector development, in which development programs seek to help small enterprises participate in, and benefit more from, the existing and potential markets in which they do business'. As such it is an interventionist approach, aimed at identifying leverage points within market system, addressing problems in the way markets function, and the resulting power imbalances (Gerstle and Meissner 2010). They are considered to have the potential to quicken reconstruction efforts to reduce poverty, as well as to leverage the private sector to work with households to achieve sustainable livelihoods. As market links are especially likely to suffer during a conflict due to the erosion of trust between groups, improving

[1] The term business climate is used synonymously with business environment here.

these links is also considered to benefit peacebuilding and economic development (Mac Sweeney 2008). This may further support the transition from markets dominated by illegal activity, to legitimate market connections with the potential to formalise (ibid).

Mac Sweeney (2008) claims that market development has the advantage of immediacy and tangibility, with clearly targetable beneficiaries and rapid, highly visible, peace dividends. Further, it is more adaptable to the FCAS context as it does not rely on government institutions to function effectively. The objective of value chain programming, for example, is to enable poor individuals and households to move out of saturated low-return activities and into higher-return, growing markets by linking poor producers to private sector actors who have access to growing markets and an interest in forming partnerships (Parker 2008). There is a particular focus on adding value to products and processes used by various participants within the chain to support the entire group of actors to compete successfully in profitable markets (ibid). Donors can support market linkages by connecting economic actors with each other, or by circulating information about the markets to allow actors to adjust their activities to market trends (Mac Sweeney 2008).

What works and does not work in private sector development

The growth diagnostic appears to be best suited to conflict-affected environments. It can provide a more detailed analysis of the cause-and-effect relationships behind the constraints to growth, and can be easily combined with a political economy approach (Curtis et al. 2010). It can also be used in a simplified way if data collection is not possible. Value chain analysis can also be a useful tool, as it can inform and reinforce conflict analysis and directly address possible causes of conflict. It is also helpful for guiding advisors on the prioritisation of particular sectors.

Datzberger and Denison (2013) find evidence of the impact of PSD programming to be very weak on a range of economic, stability and peacebuilding objectives, including equality of outcomes and opportunity, political participation, and state-society relations. They state that PSD programming is generally evaluated from an economics perspective, without attention to stabilisation and that, when stabilisation objectives do feature, causal inferences are weak.

Business Climate Reform

There is a substantial body of literature supporting the view that improvements in an investment climate lead to economic growth. In general, reform requires identifying and addressing the aspects of the business environment that harm commercial activity by reducing trade, compromising property rights, and undermining trust; and by creating and enhancing legitimacy through relationships of trust (Channell 2010). However, there is also widespread criticism of the cross-country studies used to demonstrate this link (Walton 2010b) and the methods used to measure an investment climate (Guglielmetti 2010; IEG 2008). There is less evidence of the relationship between the wider business environment and economic growth, and little documentation on the relationship between the business environment and peacebuilding and statebuilding objectives.

There is debate over **whether or not the immediate post-conflict period is responsive to reform** (Bray 2007). Channell (2010) gives an example of how corrupt and unjust courts may promote resentment, underpinning the roots of conflict, and argues that there are potential opportunities to improve judicial transparency during the period of rebuilding. He stresses that this may also be a good time to expand opportunities for women, as traditional power structures following a conflict may be more open to greater inclusion of women in policy and business (ibid). This example supports the idea of investment climate reforms in the immediate post-conflict period (Walton 2010a). However, disrupted enforcement systems can also constrain businesses and mitigate the effects of early reforms. Businesses may retreat to less efficient and more expensive arrangements, forgo new opportunities or spend valuable resources creating ‘work-arounds’ if they cannot rely on established systems (Channell 2010). According to Walton

(2010b), early reforms are most likely to succeed where there is a degree of political stability and the risk of resumption of conflict is low.

There is consensus that **'the fundamentals'**- macroeconomic reform and transparency and anti-corruption measures - should be addressed early on (Bray 2007; Channell 2010; Mac Sweeney 2008). However, some practitioners question the feasibility of doing so in environments with a legacy of conflict. Mac Sweeney (2008) notes that PSD programmes often have to take place in the absence of sound financial institutions and macroeconomic structures The IMF (2011) further acknowledges the difficulty of implementing macroeconomic reforms in fragile, low-income, countries, noting that agendas tend to be overly optimistic.

Much of the literature advocates **reforming the formal rules** of the investment climate, such as enforceable rights laws and regulations. However, some suggest that this approach is not always realistic in FCAS. Growth in productive investments can take place in the absence of these rules, promoting a willingness to engage extra-legal and informal channels. Moore and Schmitz (2008) note the importance of understanding the circumstances in which informal arrangements raise productive investment in ways that strengthen the demand for formal rules. In Indonesia, relationship, rather than rule based cooperation was a key factor for policy reform, with informal dialogue between government leaders and local firms providing an effective mechanism for improving the local investment climate (Von Luebke et al. (2009).

Attempts to **reform property rights** demonstrate the challenges of implementing formal rules. Land reform is considered a particularly intractable and deeply rooted issue across FCAS (Walton 2010b) and should be implemented with caution (Mills and Fan 2006; Channell 2010). Khan (2005) argues that efforts to formalise property rights and counter rent-seeking in FCAS might undermine the investment climate if the government lacks the capacity to enforce changes. Furthermore, Channell (2010) points to the risk of reigniting grievances and conflict by recognising property rights that are 'legal', but perceived as illegitimate.

There is wide support for **basing interventions on detailed political economy analysis** to help explain why some reforms are successful while others are not (DCED 2008; USAID 2010; Walton 2010a; 2010b; Moore and Schmitz 2008). Political economy analysis focuses on four key steps (Davis 2011):

- analysing the level of political commitment to reform at each level of government;
- identifying potential institutional champions in the public and private sectors that can drive and manage the reform process;
- understanding the institutional drivers, incentive structures, legal traditions, policy history and cultural factors that are likely to influence the reform effort;
- identifying potential 'winners and losers' from the reform to gauge how successful the process may be.

Despite support for political economy analysis in the reform process, Walton (2010b) notes that there is little sustained analysis in this area.

Similarly, while there is agreement that business environment reform needs to be **conflict sensitive**, there is little evidence of what this looks like. Lessons in conflict analysis cite the need to pay attention to the various social and economic relationships that initiated the conflict and how to manage them following post-conflict negotiations (Channell 2010; USAID 2010). They further stress the 'do no harm'principle by being aware of the possible effects, both positive and negative, on conflict actors (Mills and Fan 2006; Walton 2010b). Channell (2010) warns of the abuse of regulatory authority reigniting conflict, and resulting in the conversion of business rights into privileges that can be denied in order to obtain bribes or exclude certain groups. However, monitoring and evaluation of reform programmes often fail to look at conflict sensitivity. For example, the IFC's Development Outcome Tracking System

(DOTS) which is used to track the development effectiveness of its programmes does not include conflict effects, or contributions toward peacebuilding or statebuilding as part of its benchmarking process (Leo et al. 2012).

Channell (2010) also stresses the need to establish the **legitimacy** of business environment reforms, recognising that they will be most effective when the funding priorities of donors are aligned with the needs of the private sector and the political will of the government. This requires engagement with the local private sector and the communities in which it operates (Bray 2007; Mills and Fan 2006; Walton 2010a). To legitimise this process all stakeholders need to be meaningfully represented and have the opportunity to participate (Channell 2010; DCED 2008; Walton 2010a).

Public-private dialogue (PPD) is a widely advocated method for legitimately engaging stakeholders (Channell 2010; Davis 2011; Mills and Fan 2006). The World Bank (2014) documents lessons from a survey of PPD practitioners in more than 30 countries. 63 per cent of the respondents believed that PPD contributed to peacebuilding, with the building of trust among stakeholder groups and the creation of a culture of dialogue and transparency as the most important activities.

Evidence shows that where **business networks and associations** are strong, they can mobilise business support and lobby for policy reforms that are relevant to conflict prevention and peacebuilding. For instance, they can advocate for the transparent use of revenues and clear rules and regulations for business conduct (International Alert 2006a; 2006b; Slim 2012). This is echoed by Mercy Corps' 2011 Evaluation and Assessment of Poverty and Conflict Interventions (EAPC) which states that 'deep' economic interactions, such as participation in economic associations or business partnerships, can build relationships between adversarial groups and provide incentives for peace. Other literature supports the importance of businesses forming coalitions and working together to pursue both direct business interests and wider societal goals (Nelson 2000). Examples include a group of local trade associations sponsoring a public campaign to mobilise citizens to speak out on the importance of peace in Sri Lanka (WDR 2011) and professional association members such as midwives, providing time and skills to promote relief, development and peacebuilding in Somalia (Hammond et al. 2011).

The work of International Alert (2006a; 2006b) highlights the importance of engaging the private sector in partner countries in policy dialogue, and promoting conflict-sensitive foreign direct investment and business-to-business links. At meso-level this should include support to sound intermediate private sector structures and business associations. Lessons taken from Nelson's work (2000) relate to the need to support the (re-)establishment or strengthening of institutional structures and associations in conflict-sensitive or post-conflict societies and to build capacities and governance systems for the local private sector.

Obstacles to maximising the potential impact of business communities in conflict management are chiefly a lack of recognition that the private sector has a role (among business communities, NGOs, and the international community), coupled with a lack of understanding of what that role might be (Killick et al. 2005; Iff et al. 2010). Overcoming these obstacles requires:

- raising awareness, not only in the private sector, but among other local and international peacebuilding organisations.
- identifying the different types of roles the private sector can play, depending on the size and nature of the business community, as well as the type and stage of the conflict.

The 2011 World Development Report echoes this, emphasising the need to focus on developing local capacity – both within the private sector itself and within the government administration that oversees private sector development-related regulations and reforms, particularly in the period when conflict is already on the horizon.

Despite a wealth of literature on the investment climate in FCAS, Rao (2010) notes a **shortage of empirical studies and evidence** that are readily generalisable. This is partially attributed to the difficulty of quantifying the impact of reforms on the investment climate or wider business environment (MIGA 2004, Moore and Schmitz 2008). There is also criticism over the adequacy of the commonly used World Bank 'Doing Business' indicators for measuring changes in the investment climate. The World Bank (2014) further notes difficulties in collecting data and the challenge of proving attribution in complex fragile environments. This poses a significant challenge for the monitoring and evaluation of PPD initiatives.

Market Development

The SEEP Network (2007) documents the experiences and innovations of 13 market development operating in crisis environments. It argues that, where interventions incorporate a sound understanding of the market and its context they have the potential to smooth the transition from relief to development, and also to improve the performance of relief programmes.

Gerstle and Meissner (2010) outline four sets of questions for market development practitioners to consider in fragile contexts:

- Are there any overlaps between main market actors and conflict actors?
- Does the market encourage links between groups separated by conflict, or reinforce divisions?
- Can specific groups affected by the conflict (such as ex-combatants) participate effectively in this market?
- How is the market affected by, and how does it affect, the conflict? Does it reinforce existing inequalities? Do trends in the market affect the dynamics of the conflict (positively or negatively)? How do changes in the conflict affect this market?

These questions help practitioners to be aware of how efforts to promote the economy interact with conflict dynamics. Lister and Paine (2004)'s study with the Afghan Research and Evaluation Unit warns against promoting 'collapsed markets' at the risk of reinforcing the interests of economic elites that control a wide range of trade, but which have no interest in long-term investments, strategic positioning or business partners.

Parker (2008) identifies three value chain projects in conflict-affected contexts which demonstrate significant economic returns in sales, employment, and private sector investment; as well as four examples that demonstrate how these type of projects can be used to reach particularly vulnerable populations, even during conflict. Key lessons drawn from the case studies include:

- investment in rebuilding inter-firm links and trust is time-consuming, but essential;
- attention needs to be paid to the business-enabling environment and constraints relating to public infrastructure;
- planning for the delivery of support services is crucial to the success of value chain programming;
- sustainability needs to be a focus of the project from the outset;
- private-sector participants within the value chain are often the most powerful champions of the programme;

Gündüz and Klein (2008) provide options for integrating **conflict-sensitive approaches** into value chain analysis and interventions in conflict situations. They provide guidance on conducting conflict analysis on each of the value chain components, as well as identifying interactions between value chains and conflict under three broad categories: 1) the impacts of wider conflict on a value chain and its components; 2) a value chain's impact on wider conflict; and 3) conflicts present within a value chain, among different actors at different levels.

Making Markets Work for the Poor (M4P) is a framework for finding ways to increase the incomes of poor people while promoting the accessibility of other products and services they require (Gerstle and Meissner 2010). It is considered to incorporate elements of both the systemic and interventionist approaches to PSD (Mac Sweeney 2008). If grounded in comprehensive political economy and conflict analysis, M4P is particularly well suited to post-conflict environments because it involves a market diagnostic process to account for market dynamics and stakeholders, it is sufficiently flexible to deal with the dynamic and volatile nature of post-conflict environments, and it incorporates risk management in order to avoid exacerbating conflict (Ockenden 2011).

3.2 Employment creation

There is substantial programming and research in the area of job creation in FCAS, but there remains an evidence gap on what types of interventions work best for which purposes and in what contexts. Employment creation interventions include direct short-and-long-term job creation programmes, interventions that foster self-employment, and macro-level policies (Holmes et al. 2013). As livelihood security and inclusive growth are considered to be good for both development and peace, so too are job creation interventions that protect livelihoods and promote economic activity (Mallett and Slater 2012). However, challenges associated with job creation include sustaining the reintegration of ex-combatants, refugees and IDPs; generating employment that is accessible to youth, balancing equity and security considerations, and addressing the root drivers of access to employment such as land access and natural resources (United Nations 2009a).

In light of the challenges and opportunities associated with employment generation in post-conflict settings, the United Nations (2009a) outlines five guiding principles for programming in this area: 1) be coherent and comprehensive; 2) do no harm; 3) be conflict sensitive; 4) aim for sustainability; and 5) promote gender equality.

What works and does not work in employment creation

A number of previous studies have synthesised lessons from employment creation programming in FCAS. Mallett and Slater (2012: 49) identify four key lessons on the technical aspects of job creation interventions:

- aim to promote links to longer-term market solutions;
- assess relative efficiency and quality of employment carefully;
- link to national priorities and coherent reconstruction plans;
- consider a wider range of evaluation indicators focused on more than short-term job creation.

Haider (2009) finds six elements commonly cited as critical to sustainable long-term job creation in FCAS:

- an enabling framework for economic growth and sustainable job creation;
- a consultative process;
- market development and value chain analysis;
- private sector development;
- skills training and labour market analysis;
- public sector involvement.

The United Nations (2009b) links the sustainability of employment to social inclusion, stressing that it is supported by social dialogue among key economic players and their broad agreement on socially inclusive policies and reforms. This process aims to promote consensus building among employers, government and civil society representatives, to help align skills training with market demand, to build the capacity of employers to absorb more workers and, where possible, to target the local private sector for procurement.

A key piece of empirical research on employment creation is Blattman and Annan's (2014) RCT-type evaluation of an Action on Armed Violence (AoAV) agricultural training and inputs programme for high-risk Liberian men. The agricultural training was integrated with counselling and a 'life skills' class, relocation assistance following course completion, and the provision of farm inputs. The study identified four results 14 months after the training:

- men in the programme shifted approximately 20 per cent of their working hours away from illicit resource extraction and towards legal work, particularly farming, with their incomes rising relative to the control group;
- those in the programme were less likely to interact with mercenary recruiters.
- the programme did not have any visible effects on peer networks or other objectives of life skills programming such as aggression, attitudes to violence and community participation.
- men who were asked to wait to receive their inputs (or the cash equivalent) were found to engage less in illicit activities and mercenary recruitment than those who received inputs, despite not increasing their hours of agricultural work.

While men moved partly away from illicit activities, the findings suggest that the programme was not sufficient to make them stop completely. Consideration also needs to be paid to the finding that the promise of a future pay-out had more effect than the provision of agricultural inputs.

Holmes et al. (2013) find that evidence of the impact of employment creation interventions in fragile states on poverty and stability is limited, and that direct short-term job creation interventions are most common. While they generally find these programmes have positive effects on poverty reduction, they find no robust evidence that they promote post-conflict stability. Comparably, a report by Mercy Corps (n.d.) on youth participation in political violence in sub-Saharan Africa found that an individual's employment status had no effect on their participation, or willingness to participate, in violence in most countries. (Although, in Liberia, the study found that unemployed youth are 2.5 times more likely to participate, or be willing to participate, in violence than those who are employed). Absolute and relative poverty were more broadly found to be strong predicators of violence. A separate Mercy Corps' study in Afghanistan (2015) found that, while the INVEST programme met most of the intended economic outcomes (decreased unemployment, increased income and greater economic optimism), there was limited impact on participants' willingness to engage in political violence. The study concluded that, whilst current economic circumstances were not a major driver of political violence in Afghanistan, perceptions of future economic prospects do hold potential to decrease support for, or participation in, violent movements.

Walton (2010) maps and reviews **youth job creation programmes** that aim to address armed violence, including reintegration, early recovery, cash for work, and integrated programmes. The study finds only weak theoretical and empirical evidence that youth employment programmes, by themselves, reduce violent conflict. It, however, finds stronger (and positive) evidence on the use of job creation as part of integrated programmes to reduce armed violence. Lessons include the importance of the informal sector in job creation, of access to credit for encouraging entrepreneurship, and of providing incentives to the private sector to invest and employ young people. These lessons are applicable for programmes focusing on ex-combatants, youth integration, social exclusion and peacebuilding.

One relatively successful programme is the UNDP's work in the occupied Palestinian territories, integrating youth unemployment concerns into broader developmental, humanitarian and peacebuilding programming. A large number of short-and-long-term employment opportunities were created through land reclamation and infrastructure development programmes, while field activities were designed to improve the capacity of the Palestinian Authority, and locally-elected bodies, to develop a national youth organisation. An evaluation of the project (Gallagher 2009) found that its inclusion of capacity-building improved the timeliness of implementation, and that involving participants in its design increased their ownership and commitment.

Other research on employment generation in post-conflict settings focuses on the **connection between short-term job interventions and long-term sustainable employment**. Beasley (2006) reviews lessons and best practices, emphasising the key issues and challenges involved in transitioning from emergency short-term employment to long-term employment. McLeod and Davalos (2008) investigate the role of post-conflict employment programmes in supporting inclusive and sustained growth, and particularly the connection between early response programmes and transitioned long-term reliance on the private sector. Pugh (2008) discusses the importance of employment and labour rights in conflict-affected settings, arguing that immediate safety net measures can connect to longer-term benefits in the development of infrastructure, labour market skills and social cohesion.

Despite these identified lessons, some of the same studies point to a **gap in empirical evidence of the impact of employment interventions in FCAS**. Mallet and Slater (2012) find little high-quality empirical evidence on the impacts of livelihood and economic recovery interventions on peacebuilding, as evaluations tend to focus on output and process, rather than impact. Similarly, Haider (2009) finds that the literature on the promotion of long-term employment in fragile states is limited, and mostly focuses on conflict-affected environments. In spite of much prescriptive literature in this area, there is limited evidence on the impact of interventions on long-term job creation, the inclusivity of programmes across horizontal groups including gender, or peacebuilding and statebuilding objectives.

3.3 Agriculture

Agriculture interventions are considered a crucial aspect of early recovery efforts because they often offer the most important livelihood for the majority of the rural population in post-conflict settings (USAID 2009; de Vries and Specker 2009), contain immediate growth potential (USAID 2009), and provide social cohesion and security (de Vries and Specker 2009). As this sector often employs the majority of the population, including women (ILO 2010), it is also considered to support inclusive growth (UNDP 2008). In addition to creating labour-intensive employment and improving food security, de Vries and Specker (2009) argue that developing rural areas through agriculture can help lessen the risk of conflict and that keeping rural communities intact provides opportunities for ex-combatants and IDPs to return to their families and communities. However, they note that the effectiveness of agricultural interventions can depend on external factors such as the weather, erosion and social degradation, as well as access to land or water, which are prone to disruption from conflict.

What works and does not work in agriculture

Accounting for the local **political economy** and how this affects access to resources is considered to be crucial to the success of agriculture interventions. Pantuliano and Elhawary (2009) say that interventions involving the provision of inputs have often failed to address adequately the issue of land and the influence of conflict on local systems of agricultural production and land distribution. Similarly, Sperling and McGuire (2010) caution that, in environments where markets are functioning, the distribution of free agricultural inputs may be harmful in the long-term by generating reliance on them, and in undermining local markets. Therefore it is generally agreed that there are more positive impacts from agriculture interventions that work through markets and aim to help resuscitate them, while limiting opportunities for looting, than simple input distribution (Mallet and Slater 2012; Jaspars and Maxwell 2009). Jaspars and O'Callaghan (2010) make note of an agriculture intervention that successfully addressed the situation in the occupied Palestinian territories, where farmers were helped to retain their land as a result of agencies cooperating with local and national authorities to combine livelihood interventions with liaison and advocacy activities.

The impact of agriculture interventions can be mediated by **intervention design and implementation** (Mallett and Slater 2012). However, interventions need to be suited to the local environment and preferences; and targeting strategies that are non-inclusive can reinforce unequal power relations and undermine social cohesion. Erskine and Nesbitt (2009) document cases in which using farmer-managed trials in post-conflict agricultural programmes generated valuable lessons for agriculture programming, and the study advocates this research method as a useful tool for improving agricultural research and programming in countries emerging from conflict.

Longley et al. (2007) make key recommendations for agricultural support in fragile states, based on research from Afghanistan, Sierra Leone and South Sudan.

> Agriculture support in FCAS should aim to enhance consumption, markets and livelihoods in addition to helping production.
>
> Agricultural programmes in countries emerging from conflict should focus on moving from supply-led programming to sustainable market-driven systems for service delivery, which requires a shift in the roles of NGOs, a focus on capacity-building, and clarity on the role of the state and the private sector.
>
> Specific attention must be placed on institution-building as well as addressing vulnerability and social inequality through social protection and livelihood promotion.
>
> Intervention design must account for the broader political and security environment.

Longley et al. (2007) also cite examples of poorly implemented agricultural programming, such as a seed distribution programme in Afghanistan that did not incorporate supporting services such as extension activities, on-farm varietal trials, and demonstrations, which, as a result, limited learning for farmers and the accountability of the aid agency. Also, attempts to establish local seed production schemes in Southern Sudan in the mid-1990s proved unsustainable when NGOs were forced to pull out of the country.

USAID (2009) outlines some of the key objectives and lessons from agriculture programming in post-conflict situations. These are to reduce the dependence on relief services, to restore the infrastructure needed for agriculture, to create an enabling environment for agribusiness, and to improve access to credit in order to promote sustainable agriculture.

3.4 Infrastructure

It is crucial to rebuild infrastructure in order to unlocking a fragile society's economic potential, while also promoting social integration and reducing horizontal inequalities (Mills and Fan 2006; UNDP 2008; de Vries 2009). Also well documented is its potential to provide short-term jobs in construction and public works programmes (de Vries and Specker 2009). DFID (2010) suggests that transport infrastructure can help open opportunities for particular regions and address potential grievances and instability by removing geographical exclusion. Infrastructure also promotes economic activity by lowering unit costs, expanding markets and facilitating trade, although the effects of infrastructural investment on productivity and output are context-specific and need to consider local needs and priorities (UNDP 2008). Infrastructure is also considered to have large positive effects on long-term economic growth through its contribution to an enabling environment for the private sector (USAID 2009), its influence on health and education (UNDP 2008), and its economic multiplier effects (de Vries and Specker 2009). However, infrastructure investments can also provide opportunities for corruption, exacerbate inequalities, reinforce a war economy (for example, if road construction makes illicit trade easier), or become a target for insurgents in places where there is still conflict. De Vries and Specker (2009) note that, while large-scale infrastructure projects are likely to have a greater development impact, they tend to involve more work with machines, lessening employment effects, and are often political, carrying distributional consequences.

What works and does not work in infrastructure

Jones and Howarth (2012) provide a comprehensive review of the evidence on the impact of international support for improving infrastructure in contexts of conflict and fragility, drawing on a literature review as well as case studies from DFID-supported infrastructure programmes in Afghanistan, DRC, Nepal and South Sudan. Although they identify a number of evidence gaps, their findings suggest that the economic returns on infrastructure investments are likely to be high in post-conflict environments, particularly those in power and transportation. They also find that, while the construction of transport and water infrastructure generates significant short-term employment and boosts economic opportunities, sustaining these opportunities requires the strengthening of institutions. The authors suggest a number of ways to address the issues identified, including the need for infrastructure programmes to:

- define and adapt a theory of change;
- incorporate contextual, political economy and conflict analysis;
- develop clear strategies that recognise different programme stages while ensuring long-term sustainability;
- sustain focus on capacity development and institution building across private and public sectors;
- involve local communities;
- generate evidence of their effect.

The UNDP (2008) stresses the value of using locally sourced labour and materials, the desirability of gearing interventions towards regions and sub-sectors where the local private response is inadequate (to avoid crowding-out), and the need to understand the interaction between social and ethnic dynamics and conflict to ensure tensions are not exacerbated by infrastructure programmes. USIP (2008) recommends that all stages of infrastructure development in FCAS – assessment, planning and coordination, building and maintaining legitimacy, execution, and transition planning – are done on the basis of conflict analysis. At the assessment stage, this involves conducting a robust analysis of stakeholder interests in infrastructure and peace/conflict dynamics, the capacity of host institutions, and potential spoilers. In execution, USIP recommends small, community-driven infrastructure projects implemented by local actors and ensuring links between short-term initiatives and long-term projects. Other recommendations include establishing a clear leader to coordinate the project, integrating a capacity development plan at all project levels, and setting goals and implementing safeguards to meet security, capacity, sustainability and public perception objectives from the outset of the project.

Anand (2005) proposes a framework for analysing what different projects can contribute towards reducing poverty, effective governance and state reconstruction, and peace. He argues that this kind of analysis, if it is done with the participation of aid workers, local communities and NGOs, can help to clarify the relative impacts of projects and therefore help determine where to allocate aid. Anand says this kind of cooperation can also clarify short-term and long-term policy aims, create appropriate financing and accountability mechanisms, and recognise policy tensions and trade-offs.

An example of one of these policy trade-offs, specific to infrastructure, is the decision of whether to improve or replace local procurement processes, contributing to long-term capacity-building and development objectives, or to use international bidding processes, ensuring greater transparency. Eisendrath (2007) advocates the use of operating contracts for managing infrastructure enterprises to manage this trade-off. Reviewing water and electricity infrastructure projects from ten countries, he concludes that incentive-based operating contracts adapted to the local context can 'turn around' the difficult operating environments of poorly performing electricity and water utilities, resulting in reduced losses, increased collections, and more efficient and accountable management.

3.5 Natural resource management

While natural resources hold the potential to stimulate economic growth and socioeconomic improvements, this growth is not innately inclusive or transformational, and has the potential to undermine statebuilding and peacebuilding objectives. Therefore, policies to reduce the conflict potential of natural resources are necessary (UNDP 2008). For natural resources to contribute to inclusive and sustained post-conflict economic growth, it is critical to improve the transparency of resource management (IMF 2007). The UNDG (2013) and the United Nations Interagency Framework Team for Preventative Action (2012) suggests that transitional post-conflict environments provide opportunities to transform and rebuild natural resource management (NRM) systems in ways that would otherwise be more difficult to achieve. The UN agencies acknowledge that the key challenges in this area are identifying which natural resources have the greatest potential for contributing to (or undermining) peace, how they should be managed, and which stakeholders should be engaged, including governments, international organisations, civil society and the private sector. They emphasise the importance of transparency, stating that, in order to contribute to peace efforts, natural resource management systems need to allow for decisions to be challenged by various stakeholders without violence. In this way natural resources can change from a cause of conflict into a government commitment to peace and development and, although this process may be supported by external actors, it must be driven from within.

The premise put forward by Brown (2013) is that improved **NRM is a form of peacebuilding** in that it encourages the development of clear and fair systems of ownership; creates mechanisms to resolve disputes; and promotes the equitable sharing of benefits. This is echoed by the United Nations Department of Economic and Social Affairs (2004) which states that the governance and management of natural resources are core tools for preventing conflict. A more detailed framework is put forward by Grundel (2010) who notes that natural resources can be used to promote peacebuilding and post-conflict economic recovery via the following principles:

- the importance of transparency and accountability by governments in their management of natural wealth and its revenues;
- the need to involve civil society, particularly local communities, in defining and implementing plans for the better management of natural resources;
- the important role that responsible resource extraction and processing companies can play in improving wider governance conditions within the sector;
- the potential of international standards and initiatives to provide guidance and set benchmarks for various public and private actors.

There are a range of **transparency and accountability initiatives** (TAIs) in the extractives sector covering licensing, exploration, contracting and extraction, as well as revenue generation and the allocation of natural resource revenues (Mejía Acosta 2013). Examples include Publish What You Pay (PWYP), the Extractive Industries Transparency Initiative (EITI) which advocates a global standard for transparency among business and governments, OECD's due diligence guidelines for responsible supply chain management of minerals from conflict-affected areas, and the IMF's encouragement of oil-producing countries to publicise data on oil production.

A survey of TAIs in the extractives sector conducted in 2012 (Mejía Acosta 2013) calls for a more explicit understanding of how civil society can affect specific transparency outcomes. The survey reveals that there are few rigorous attempts to show how greater accountability and transparency may lead to improved governance outcomes. There are challenges in distinguishing between the direct and indirect contributions that TAIs make to improve natural resource governance, and the lack of precision in identifying the contributing factors to improved resource governance, such as education levels, the strength of the rule of law, the roles of the judiciary and other institutions (Mejía Acosta 2014). An EITI assessment of reports concludes that in itself, EITI is not sufficient to eradicate corruption in the extractive sectors. However, it highlights the role such initiatives play in informing public institutions and demonstrating government and company commitment to tackling corruption.

This understanding of transparency, not as an end in itself but as a means to more accountable government, is echoed in challenges around **outcome and impact measurement**. International donors often focus on inputs (transparency, guidelines, policies), but forget about outcomes (such as accountability, equity, and reduced violence) (Brown 2013). For example, in Afghanistan, where there are progressive laws and regulations on forestry, water and wildlife management, there is little tangible impact due to a lack of capacity to implement them

What works and does not work in natural resource management

Darby (2010) advances four components to ensuring that conflicts can be mitigated through NRG:

- ensuring that local people who are likely to be affected are actively and consistently consulted before and during resource extraction/use;
- providing information regarding the terms of resource contracts, and ensuring that the physical locations of resource concessions are publicly available and easily accessible;
- opening channels of communication between large-scale and local users of a resource, or ways in which local users can report the illegal use of resources;
- tracking and monitoring of the revenues, so that all stakeholders are clearly aware of the beneficiaries.

Brown’s (2013) work supports this, highlighting the need for the international community to invest early on, and systematically, in NRM as a part of peacebuilding programmes. This should also include reducing competition for resources, and improving resource management across boundaries. The importance of good multi-sectoral communication is also crucial, but raises concerns around the constraints that may arise as a result of bargains struck during peace negotiations (UNIFTPA 2012).

4 Implications for future research, policies and programming

4.1 Key issues

The key issues surrounding economic development in FCAS identified through the literature and case studies are summarised below.

Conflict trap: Poor economic development processes and outcomes and conflict are mutually reinforcing. Breaking this trap presents a significant challenge, and operating within it means that donor interventions can have unintended negative consequences.

FCAS-specific implementation challenges: Specific challenges need to be addressed when planning economic development programmes in FCAS. These challenges may require the flexibility to adapt to changing circumstances, additional capacity-building efforts, and larger budgets and longer time-frames.

Trade-offs: Difficult trade-offs must often be made as the aims of inclusive and transformational economic growth and state-and-peacebuilding are not necessarily mutually reinforcing.

Inclusion: Inclusion and sensitivity to the needs of populations across gender, ethnic, regional, income and other groups is crucial for growth strategies and peacebuilding.

Resource paradox: Natural resources can be a blessing and a curse, with continuing challenges in how to channel the funds they generate, in a way that supports inclusive and transformational growth and well as statebuilding and peacebuilding.

Lack of evidence: Much of the literature guiding economic development interventions in FCAS lacks robust evidence of impact, specifically on wider statebuilding and peacebuilding objectives. This leads to a lack of evidence-based policy.

Failure to include wider objectives in programme design: Economic interventions in FCAS often fail to adequately and explicitly incorporate conflict sensitivity, and statebuilding and peacebuilding objectives, into programme design and frameworks for monitoring and evaluation.

Difficulty measuring impact: The time involved in economic development programming and the changing dynamics of conflict makes it difficult to see whether donor interventions contribute to growth, poverty-reduction, peacebuilding and statebuilding, particularly in the short-term.

4.2 Lessons

Five lessons have emerged from the key issues outlined above.

Lesson 1: It is important for economic development interventions to incorporate conflict-sensitivity into programme design, implementation and evaluation.

Economic development interventions risk exacerbating conflict if conflict dynamics are not overtly addressed through political economy and conflict analysis (Alinovi et al. 2007). Environments with valuable natural resources are particularly prone to some of these risks. Therefore, interventions need to be context-specific, addressing the local political economy and conflict dynamics (UNDP 2008; World Bank 2011). Programming needs to incorporate these issues so that its implementation can anticipate and minimise any potential negative consequences (USAID 2009). Conflict sensitivity can be monitored and evaluated; a range of tools exist for this purpose (see Goldwyn and Chigas 2013). See also *GSDRC Conflict Sensitivity Topic Guide* for tools and approaches to apply conflict sensitivity to interventions.

Lesson 2: Trade-offs between inclusive growth, transformational growth, peacebuilding and statebuilding need to be understood and considered in programme design and implementation.

Inclusive growth, transformational growth, peacebuilding and statebuilding objectives are not always mutually reinforcing, which requires prioritisation and trade-offs. Trade-offs that arise include prioritising the: urgent vs. legitimate; effective vs. efficient, short-term vs. long-term; and window of opportunity vs. absorptive capacity (USAID 2009). In situations where all programming and reforms are important but capacity and resources are low, interventions require prioritisation and sequencing (Herbert 2014). A key difference between economic development in FCAS and economic development elsewhere lies in these trade-offs.

Lesson 3: Attention to gender and horizontal group disparities.

The early stages of statebuilding do not prioritise gender equality, and increasing women's voice, in political, social, and economic development. Issues related to gender relations, women's rights, participation and relationship to the state are often overlooked or inadequately addressed when designing interventions (Kangas et al. 2014).

Lesson 4: Stronger evidence of what works for economic programming in FCAS is needed.

The relationship between conflict and growth remains uncertain, lacking nuance and specificity (Mallett and Slater 2012). The majority of programmatic evidence suffers from unclear empirical foundations. Very few case studies, including those reviewed in this Topic Guide, provide robust impact assessments, particularly of long term aggregate-level impact. A consistent criticism is that there is very little robust evidence on the impact of interventions. Furthermore, many evaluations emphasise results against outputs rather than impacts on intended beneficiaries (see, for example, Sinha et al. 2012), or focus on economic impacts without considering other objectives such as peacebuilding and statebuilding or conflict-sensitivity (see Box 1).

Lesson 5: Economic interventions in FCAS should incorporate statebuilding and peacebuilding objectives in programme design and monitoring and evaluation frameworks.

Incorporating wider objectives into programme design and monitoring and evaluation frameworks should both bring greater focus towards achieving these objectives, but also help to fill the evidence gap identified above, ultimately leading to improved interventions and evidence. A number of resources exist to help achieve this aim.

4.3 Evidence gaps

As noted throughout, there are a number of key evidence gaps in the literature. This lack of evidence of what works for economic programming in FCAS stems from the challenges of monitoring and evaluating changes that are inherently abstract, complex, and longer-term (Corlazzoli 2014). Several challenges have been identified

- FCAS are more likely to suffer from incomplete and unreliable national data (DFID 2012).
- There are obstacles, such as poor security, to effective and rigorous data collection (Corlazzoli and White 2013a; 2013b DFID 2013b).
- The establishment of counterfactuals through experimental or quasi-experimental designs is difficult and often inappropriate in conflict contexts because: 1) it is difficult to establish a control group for a changing intervention in a changing context; 2) it is difficult to isolate the intervention; 3) these

designs can raise conflict sensitivity concerns if they advantage some groups relative to others; 4) the complex nature of FCAS makes attribution difficult (Bayne and Vaux 2013).

The changes sought in knowledge, attitude, behaviour and perceptions in FCAS are often intangible and therefore not easily measured (Corlazzoli and White 2013).

Poorly designed programmes that lack explicit theories of change, contain overly ambitious targets or weak indicators, emphasise outputs rather than outcomes, or fail to do proper conflict analyses (Corlazzoli and White 2013a; 2013b).

Some of the resulting evidence gaps are:

Heterogeneity: There is limited information on the heterogeneity of a conflict's economic impacts on different groups of the population, particularly on women. There is also limited evidence on how economic interventions can affect these groups differently and where this might exacerbate or mitigate grievances.

Timing: The literature on interventions is focused mainly on post-conflict settings or situations of 'transition', which does not account for the fluidity between conflict and fragility. There is, therefore, little evidence to help one decide which programmes to implement when, or how to adapt interventions based on timing.

Rigorous evaluation: Most existing literature is based on individual case studies with a gap in rigorous evaluation, which may be partly due to difficulty in conducting research in these environments.

Impact on wider objectives: There are evidence gaps regarding the impact of economic programmes on poverty and stability, economic growth, conflict sensitivity, peacebuilding and statebuilding. Even where there are rigorous evaluations (such as Christian et al. 2013), they do not often incorporate indicators for the measurement of peacebuilding or statebuilding.

Synergies: Although it is recognised that interventions in FCAS often require trade-offs between peacebuilding, statebuilding and growth objectives, there is limited evidence of the types of conditions and programmes that provide opportunities for synergy and complementarity.

Filling these gaps will require researchers and practitioners to address the challenges associated with monitoring and evaluation in FCAS. This will involve balancing accountability and learning, requiring carefully budgeted and planned evaluations that are adapted to their changing contexts (Corlazzoli and White 2013). Bayne and Vaux (2013) suggest that theory-based approaches are essential to assessing integrated development and peacebuilding programming by examining causes and effects, and testing the validity of the assumptions linking development and peacebuilding. Corlazzoli (2014) specifically investigates the use of information and communication technologies (ICTs), such as mobile phones, interactive and online maps, big data, social media, and the digitisation of surveys, to overcome some of the structural challenges to monitoring and evaluation in FCAS. She finds that ICTs have the potential to improve monitoring and evaluation in FCAS by generating:

- rapid and almost real-time monitoring;
- different types of data to assess programming;
- the opportunity to track indicators more systematically;
- potential cost savings;
- the opportunity to increase capacities and collaboration;

- potential increase of use through data visualisation;
- greater engagement with participants.

However, these advantages must be weighed with potential concerns over systematic bias or errors, selection bias, safety and security concerns, training considerations, logistics planning, and the potentially inconsistent application of social science methodologies (ibid).

4.4 Questions for further research

Based on these identified potential tools for addressing challenges to monitoring and evaluation, and the evidence gaps, questions for further research include:

Heterogeneity: How does conflict affect different groups of the population, particularly women? How can these effects be addressed at different stages of conflict?

Timing: How does the impact of an intervention change at different stages of conflict? Are there particular interventions that pose a higher risk of 'doing harm' in particular contexts or at particular stages of conflict?

Rigorous evaluation: What are the barriers to a rigorous evaluation of economic interventions in FCAS? Do these evaluations have the potential to 'do harm'? Are there better methods to measure the impact of economic interventions in FCAS? How can evaluations account for the temporal dimension of economic development programming in FCAS?

Impact of wider objectives: How can wider statebuilding and peacebuilding objectives be better integrated into monitoring and evaluation frameworks? How should economic, peacebuilding and statebuilding objectives be prioritised in the short and long-term? When are trade-offs between different objectives inevitable? How should results be interpreted in light of trade-offs? When are interventions that integrate economic and peacebuilding/statebuilding objectives appropriate?

Synergies: When, and in what contexts, does economic development conflict with peacebuilding and statebuilding? What types of interventions create opportunities for synergies? What types of economic development and growth best complement peacebuilding and statebuilding?

5 Resources

Key resources on FCAS:

DFID. (2005). *Why we need to work more effectively in fragile states*. London: DFID. http://www.jica.go.jp/cdstudy/library/pdf/20071101_11.pdf

Mcloughlin, C. (2012). *Topic Guide on Fragile States*. Birmingham: GSDRC. http://www.gsdrc.org/topic-guides/fragile-states/

Key resources on economic growth:

DFID. (2014a). *Economic development for shared prosperity and poverty reduction: a strategic framework*. London: DFID. https://www.gov.uk/government/publications/economic-development-for-shared-prosperity-and-poverty-reduction-a-strategic-framework

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