



Helpdesk Research Report

Peacebuilding and economic growth

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Question

What is the relationship between peacebuilding and economic recovery and growth? How does economic growth impact on peace and stability in the Asia-Pacific region? What approaches to peacebuilding have been used to promote economic recovery and growth in the Asia-Pacific region?

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1. Overview

This report provides an overview of the literature on the relationship between peacebuilding¹ and economic recovery and growth in fragile and conflict affected states, with particular emphasis on the

¹ There are many different definitions of peacebuilding in the literature. For the purposes of this paper, the OECD's definition will be used (2010, p. 22): 'Key peacebuilding objectives include inter alia: preventing countries from lapsing or relapsing into conflict; establishing structures and incentives for peaceful mitigation of conflicts; incentivising elite commitment to peace processes, while laying the groundwork for those processes to be made more inclusive over time; establishing a framework for political, economic and security transition; jump-starting recovery; demonstrating peace dividends by meeting the urgent needs of the population.'

Asia-Pacific context.² The majority of the conflicts occurring in the Asia-Pacific region take place at the sub-national level. There is evidence to suggest that while many of the affected countries receive development assistance from key donors, this assistance tends to occur at the national level rather than targeting conflict-affected areas directly. Peacebuilding approaches tend to focus on reforms in the security sector and on political reform and governance initiatives rather than focusing on economic recovery and growth.

The literature reflects a range of divergent viewpoints on the relationship between peacebuilding and economic growth, both generally, and in the Asia-Pacific context. Key findings are:

- Economic growth can divert attention away from the grievances that caused conflict (Portland Trust, 2007).
- Aid has no immediate impact on growth in post-conflict and fragile settings but it does contribute to growth in the post-conflict decade (Hoeffler et al, 2010).
- Programmes promoting economic recovery and growth should not be implemented in countries still experiencing violence (OECD, 2010; Hoeffler et al, 2010).
- Both short-term and long-term strategies for economic recovery and growth can have stabilising effects (de Vries and Specker, 2009).
- Focusing on economic recovery and growth during peacebuilding does not necessarily contribute to peace and stability, as growth can exacerbate tensions between groups in fragile and conflict-affected settings (Parks et al, 2010; Burke, 2013a).
- Economic incentives should not be seen as an alternative to political processes (Goodhand, 2010).
- Economic recovery is difficult to operationalize in fragile settings (de Vries and Specker, 2009).

Economic growth does not appear to have had a mitigating impact on conflict in the Asia-Pacific region. Despite high levels of growth at the national level, prolonged subnational conflicts occur in a significant number of countries in the region. Conflict affected areas experience significantly lower levels of growth than other areas in conflict affected countries. This inequality can exacerbate existing tensions between different societal groups. Even those conflict-affected areas that have experienced significant levels of socio-economic development have not seen a reduction in levels of violence.

Peacebuilding approaches that have been used to promote economic recovery and growth in the Asia-Pacific region are:

- Other donors, including the Asian Development Bank, have also funded livelihoods projects in Sri Lanka.
- **Macroeconomic policy and technical assistance** – the Regional Assistance Mission for the Solomon Islands (RAMSI) has been particularly active on this front.
- **Infrastructure development** – Asian donors, including China, India, and Japan, have funded both small-scale and large-scale infrastructure projects in Afghanistan, Mindanao, and in Sri Lanka.
- **Cross-cutting initiatives** – a large proportion of the projects promoting economic recovery and growth in fragile and conflict affected states address all of the above areas. Examples include the

² Sanchez-Cacicedo (2010) argues that in Asia peacebuilding constitutes peacekeeping and economic assistance.

Multi-donor Mindanao Trust Fund in the Philippines and the Eastern Re-awakening programme in Sri Lanka.

2. Relationship between peacebuilding, economic recovery and growth in fragile and conflict affected states

There is some consensus among the literature that there is a positive relationship between peacebuilding and economic growth. UNDESA (2010) argues that the end of a conflict can often bring about rapid economic growth, while Hoeffler et al (2010) furthers that post-conflict economies grow at around three per cent per year, which is about one per cent more than the average country. UNDESA (2010) states that economic revitalisation should be a core component of any national peacebuilding strategy.

Nagle and Clancy (2011) cite a number of authors who claim that there is a **positive relationship** between peacebuilding and economic growth. One example cited is that of the Basra Development Commission being told on a tour of Belfast in 2008 that '[a]n improved economic climate, where people have a better stake in society, can play a great part in assisting with the improvement of stability and political development' (Stewart, 2008 cited in Nagle and Clancy, 2011, p. 86). They also cite a paper which argues that economics is important in conflict resolution because it **diverts attention** from issues such as motive, grievance, historical rights and wrongs, focusing instead on the issue of economic opportunity (Portland Trust, 2007, p. 5, cited in Nagle and Clancy, 2011, p. 86).

However, Goodhand (2010, p. 360) cautions that in recent years there has been a tendency in peacebuilding to assume that 'economic incentives can somehow override or short-circuit complex political processes.' Dahl and Hoylund (2012) challenge claims that economic growth prevents conflict reoccurrence.

Discussing the relationship between aid, growth, and peacebuilding Hoeffler et al (2010) find that 'contemporaneous' **aid does not have a positive effect on growth in post-conflict countries**. However, they find that in the post-war decade aid has a positive effect on growth, with an extra per cent of aid providing an extra 0.5 per cent growth per year throughout the post-war decade (Hoeffler et al, 2010, p. 29). Narayan et al (2010, p. 184) find that after security, economy recovery at the individual level, rather than at the national level, is people's first priority. They argue for the giving of grants rather than loans, stating that 'money helps people economically, and with encouragement money let's people let go of past grudges.'

The OECD (2010, p. 25) states that inclusive economic growth may be prioritised over approaches to peacebuilding that focus on justice and impunity, because it is essential for job creation and it increases the legitimacy of the state. However, they note that without 'transparent systems of public financial management, effective management of resources, and peace,' growth can add to inequality and undermine peacebuilding (OECD, 2010, pp. 25-26). Hoeffler et al (2010) concur with this argument finding that if aid is given to encourage growth in a post-conflict setting then it should be given to countries at peace, not to countries still experiencing some violence, as aid does not enhance growth in the latter case.

According to the UNDESA (2010, p. 13), **establishing safety and security**, as well as a degree of political stability, 'are likely prerequisites for economic revitalisation and are essential for private sector investment.' They also suggest that peace dividends, such as cash-for-work public works projects may be an early priority when developing a peacebuilding strategy (UNDESA, 2010). The OECD (2010) notes that

states emerging from conflict are often under pressure to provide immediate benefits for the people, while at the same time needing to support sustainable economic reform and development. They state that creating the conditions needed to enable investment and growth in the long term, may have a negative effect on economic activities that provide income for some sectors of the population (OECD, 2010, p. 37).

According to de Vries and Specker (2009), **economic recovery is difficult to operationalize in fragile states**. However, they argue that it makes sense to incorporate economic recovery efforts into post-conflict reconstruction strategies at an early stage (2009, p. 3). They state that short-term economic reconstruction activities stabilise 'by meeting the needs and increasing the resilience of the most vulnerable groups, while longer-term activities aim at consolidating the gains made, and work on the preconditions for self-sustaining development' (Ibid).

3. Economic growth's impact on peace and stability in the Asia-Pacific region

Evidence from across the Asia-Pacific region indicates that **economic growth has not made a positive contribution to peace and stability**. According to Parks et al (2010, p. 23) 'even though national economies have grown rapidly for decades, subnational conflicts have continued and become more intense and pervasive.' They note that the majority of 'subnational conflicts' in Asia are in middle-income countries (Parks et al, 2010).

According to Parks et al (2010), while national economies in the region have experienced 'explosive' growth, the rate of growth in subnational conflict areas is much slower than the national average. The authors contend that 'relative inequality between conflict-affected areas and the rest of the country increases the widespread perception of injustice, unequal opportunities, and marginalization that fuels resistance movements.' Burke (2013a, p. 843) states that while governments throughout Asia often promote economic growth at the local level in order to resolve subnational conflicts, there is evidence to show that **violence continues** even through periods of economic growth.

Looking at countries in the Asia-Pacific region in more detail appears to confirm the above. Ghani and Iyer (2010) note that **high income doesn't guarantee peace and stability**, contending that 'India, Pakistan, Sri Lanka, and Nepal all have much higher conflict rates than expected for their stage of development' (Ghani and Iyer, 2010, p. 2).

In Sri Lanka, the economy expanded by five per cent per year from 1983 to 2000 despite the civil war (see footnote 93 in Holt, 2011). However, according to Burke and Mulakala (2011, p. 165), economic growth in Sri Lanka during the conflict did not result in political or social change. They argue that growth has had little impact on productivity or on investment in infrastructure, education and public services. Goodhand (2010, p. 360) describes Sri Lanka as a good example of the 'politicisation of reconstruction or the economisation of peace-building.' Holt (2011) discusses how the donor community and the Sri Lankan government saw economic recovery and growth as being inextricably linked with the peace process. According to Holt (2011, p. 103), economic recovery was seen as a means of providing an 'essential peace dividend that would benefit all Sri Lankans and help promote the peace process.' She argues that the international community saw the promise of funding as a means to 'coerce' the warring parties into continuing with the negotiations (Holt, 2011, p. 103). However, neither the GoSL (Government of Sri Lanka), nor the LTTE (Liberation Tamil Tigers of Eelam) took this seriously (Holt, 2011). Holt (2011, p. 104) argues that the focus on peacebuilding and economic recovery, **weakened the peace process**. She notes

that while the 2002-2006 peace process did result in economic growth, it ‘evaded equity and peace’ (Holt, 2011, p. 104).

Similarly, Burke (2013a, p. 843) states that people’s socio-economic status has improved in the far south of Thailand as a result of ‘decades of economic growth and an expansion of state services.’ However, he notes that these changes have often **exacerbated tensions** between different groups, rather than reducing them (Ibid).

Burke (2013b, p. 7) argues that economic initiatives such as natural resource extraction, plantations, and dams have already ‘contributed to violence’ in Myanmar’s border areas. He adds that ‘accelerated development is likely to exacerbate existing tensions’ (Ibid).

Approaches to peacebuilding that support economic recovery and growth in the Asia-Pacific region

Supporting livelihoods

- The **UNDP’s Livelihoods Recovery for Peace (LRP)** project was launched in 2009 in the three most conflict affected states in the Terai region in southern Nepal. The project focuses on mobilising the poorest communities for peace and development; improving the local infrastructure; improving livelihoods of the poorest and most vulnerable; empowering women; and strengthening local institutions.³
- The **UNDP’s Early Recovery and Rehabilitation for Central Mindanao (ERRCM)** project aimed to help IDP’s in central Mindanao recover from the adverse effects of armed conflict. Areas of assistance were shelter, water, and sanitation; basic services and facilities; livelihood assistance; strengthening capacity for local governance; rebuilding social cohesion.⁴
- The **Asian Development Bank’s Post-Conflict Emergency Assistance for Livelihood Restoration of Resettled Internally Displaced People in the North of Sri Lanka** seeks to restore resettled internally displaced people’s (IDP) livelihoods through the provision of temporary income-earning opportunities. This includes:
 - Supporting the rehabilitation and maintenance of 200km of field irrigation canals and 100km of rural access roads, thereby enabling 2,500 families IDP to receive cash benefits for the restoration of their original livelihoods and employment in the agriculture sector.
 - Providing training for 2,000 IDPs in agriculture-related subjects, with a focus on improving productivity and access to markets
 - Promoting saving among IDPs, with the aim of encouraging investment in sustainable income-generating activities.⁵
- USAID provided **training for disadvantaged and conflict affected youth** in Nepal in order to increase their employability and income generation potential.⁶
- The **UN Interagency Rehabilitation Programme (UNIRP)** supported the transition of the discharged Verified Minors and Late Recruits from military to civilian life by providing them with training and education to access employment and livelihood opportunities.⁷

³ http://www.np.undp.org/content/nepal/en/home/operations/projects/poverty_reduction/lrp.html

⁴

http://www.ph.undp.org/content/philippines/en/home/operations/projects/crisis_prevention_and_recovery/project-ERRCM.html

⁵ <http://www.adb.org/projects/44201-012/details>

⁶ <http://www.usaid.gov/nepal/economic-growth-and-trade>

- **International Alert's Business for peace in Pakistan** project aims to strengthen the peacebuilding potential of the private sector in Pakistan. It provides businesses with the skills to 'support cohesion in communities, to create partnerships, and to promote business across conflict divides.' It also helps advocate for conflict-sensitive and responsible business practices.⁸

Infrastructure development

- The **Japan Bank for International Cooperation** provided a US\$19.8 million loan to finance small infrastructure projects in conflict-affected areas in the Autonomous Region of Muslim Mindanao (ARMM) (Hull and Echavez, 2010, p. 254).
- Non-western actors have become increasingly involved in post-conflict reconstruction in Sri Lanka. For example, post 2005, **China** and **Iran** pledged more than US\$2 billion to develop 'ports, oil refineries, and power infrastructure' in Sri Lanka (Burke and Mulakala, 2011, p. 165). According to Wheeler (2012), Chinese officials and academics claim that they are addressing the root causes of conflict by providing financial assistance in the field of infrastructure development.
- India provides 'technical assistance in infrastructure building and the provision of basic services in Afghanistan' (Sanchez-Cacicedo, 2010, p. 19).

Macroeconomic policy advice and technical assistance

- The **Regional Assistance Mission for the Solomon Islands (RAMSI)** is a peacebuilding mission involving fifteen contributing countries in the Pacific region.⁹ Promoting economic growth has been a key component of RAMSI's work. Activities in this field include:
 - Providing macroeconomic analysis and policy advice.
 - Modernising business regulations and improving financial services in provincial and rural areas.
 - Reforming the operation of state-owned enterprises, which are responsible for providing many basic services to Solomon Islanders.¹⁰
 - Improving revenue collection through tax reforms that support economic growth.¹¹
 - Improving the professional skills of Ministry of Finance and Treasury officers and management.
 - Improving budget processes, presentation and economic forecasting.¹²
 - Modernising government financial rules and regulations to improve the delivery of government services.
 - Stabilising government finances.

Key successes have included:

- An Economic Reform Unit and a Financial and Economic Development Unit have been established within the Ministry of Finance and Treasury.
- Following the introduction of key legislation, foreign investment increased seven-fold.
- The new rural banking programme has led to 15,000 bank accounts being opened.

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http://www.np.undp.org/content/nepal/en/home/operations/projects/crisis_prevention_and_recovery/unirp.html

⁸ <http://www.international-alert.org/what-we-do/what-we-work-on/economy/projects>

⁹ These are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Tonga, Tuvalu, and Vanuatu.

¹⁰ RAMSI - <http://www.ramsi.org/our-work/economic-governance/economic-reform.html>

¹¹ RAMSI - <http://www.ramsi.org/our-work/economic-governance/revenue.html>

¹² RAMSI - <http://www.ramsi.org/our-work/economic-governance/public-financial-management.html>

- GDP increased from US\$815 per capita in 2004 to almost US\$1000 in 2011.¹³
 - Solomon Islands Government revenue grew by over 25 per cent each year from RAMSI's arrival until 2008, with positive revenue growth continuing in 2009 despite the global financial crisis.¹⁴
 - Solomon Islands debt has been reduced from over 100 per cent of Gross Domestic Product to 24 per cent over the eight years of RAMSI's assistance.
 - International donors are now able to channel funds, including budget support, through Ministry of Finance and Treasury systems.
- **USAID's Connecting of Regional Economies (CORE)** - programme aims to reduce the disparity between the eastern and western provinces of Sri Lanka by 'improving supply chains and market linkages.' However, it was criticised by a Tamil National Alliance (TNA) parliamentarian, who described it as an attempt 'to help Colombo to make majoritarian inroads into the East and to integrate it economically and socially with the Colombo system' (cited in ICG, 2009, p. 20, cited in Goodhand, 2010, p. 355).
 - **The Growth with Equity in Mindanao 3 programme** is a USAID funded programme, which seeks to increase economic growth and to 'help bring about and consolidate peace in Mindanao.'¹⁵

Cross-cutting programmes

- **The Government of the Philippines social fund (Multi-donor Mindanao Trust Fund)** was created with the help of a US\$33.6 million World Bank loan. Its purpose is to support social and economic infrastructure and services, food security, employment opportunities, and better local governance in the ARMM). Local and municipal governments have to contribute 5 per cent and 10 per cent respectively of the total project costs, in order to encourage local ownership (Hull and Echavez, 2010, p. 254).
- The Sri Lankan government launched its **Eastern Re-awakening programme** in July 2007. According to Goodhand (2010, p. 354) this initiative can be seen 'as the latest in a long line of attempts to reinvent development as the route to security.' The programme's key components are: village development and rehabilitation; essential rehabilitation and improvements to major irrigation schemes; cluster-level livelihood support activities; and institutional capacity-building and project implementation support (Goodhand, 2010, p. 354).
- **International Alert's Building peace in Kyauk Phyu project** aims to bring about new forms of collaboration in the fields of foreign investment and economic development in Kyauk Phyu, in Myanmar's Rakhine state. The project will develop the capacity of new institutions in order to enable them to monitor and steer economic development in a way that serves local needs as well as the needs of foreign investors and the government. Activities include courses in conflict-sensitive economic governance and visits to other countries that have promoted similar special economic zones (SEZs).¹⁶
- Asian Development Bank's Post-conflict Emergency Rehabilitation Project in the Solomon Islands aims to restore essential services and facilities for communities affected by conflict.¹⁷

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¹³ RAMSI - <http://www.ramsi.org/our-work/economic-governance/economic-reform.html>

¹⁴ RAMSI - <http://www.ramsi.org/our-work/economic-governance/revenue.html>

¹⁵ <http://www.mindanao.org/>

¹⁶ <http://www.international-alert.org/what-we-do/what-we-work-on/economy/projects>

¹⁷ <http://www.adb.org/projects/34513-013/details>

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Key websites

- ADB – <http://www.adb.org>
- International Alert – <http://international-alert.org/>
- UNDP Nepal - <http://www.np.undp.org/>
- UNDP Philippines - <http://www.np.undp.org/>
- USAID - <http://www.usaid.gov>

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