Growth and livelihoods in conflict-affected situations: what do we know?

Key messages

- The evidence base on growth and livelihoods in conflict-affected situations is comprised of four distinct 'categories' of evidence
- We know strikingly little about the impacts of livelihood and economic interventions in conflict-affected environments, and programming choices often appear to be driven by assumptions of effectiveness and unsubstantiated narratives of success
- Conflict-affected economies demonstrate surprisingly strong GDP growth rates, but methodological weaknesses suggest the data need to be treated with great caution

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Rolling towards recovery at Bakaara market, the economic hub of Mogadishu

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The socioeconomic impacts of war and large-scale violence are often devastating, multiple and wide-ranging, and it is with some justification that violent conflict has come to be identified over the years as a major barrier to development.

Yet, although there has been a marked increase in the level of interest directed towards fragile and conflict-affected situations, our understanding of the realities of, and the processes occurring within, such places remains limited. Researchers and policymakers continue to struggle to make sense of the heterogeneity of war's impacts – for example, among different population groups or over time – and fundamental questions regarding the effectiveness of programming loom large. This is particularly concerning given recent escalations in bilateral funding to states affected by conflict and fragility: in just one example, the UK's Department for International Development (DFID) is planning to spend as much as 30% of its official development assistance budget in countries affected by conflict and fragility by 2014/15 (House of Commons, 2012).

In light of the problems we know war causes, the recognition that there is still much we do not know, and the increasing visibility and influence of the so-called 'fragile states agenda', researchers at the Secure Livelihoods Research Consortium (SLRC) have synthesised and reviewed the literature on livelihoods and growth in fragile and conflict-affected situations in order to map out the evidence (what are we working with?), identify key findings (what do we know?) and pinpoint gaps and weaknesses in the evidence base (what are we missing?) (see Mallett and Slater, 2012).

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What are we working with? Mapping out the evidence

Adopting a rigorous, comprehensive and multi-layered search methodology – involving a mixture of systematic reviews, snowball sampling, and orthodox retrieval methods – the review identifies an extensive range of sources and uses this material as the basis for a mapping exercise, disaggregating the literature into a number of different 'categories' of evidence. Four such categories, each with a distinct set of characteristics, appear to dominate the burgeoning literature on growth and livelihoods in conflict-affected situations (Box 1).

Box 1: Four categories of evidence dominate the literature on growth and livelihoods in conflict-affected situations

Crunching the numbers: quantitative assessment and aggregate-level statistical evidence. Includes cross-country econometric evidence focusing on the economics of conflict onset, the costs of war, and aid effectiveness (dominated by regression analyses of large-number datasets); and quantitative description, analysis and measurement of livelihoods (e.g. Household Economy Approaches, Vulnerability Assessment Mapping)

What works? Programmatic evidence. Offers 'lessons learnt' and policy guidance on the practical mechanics of generating economic growth and supporting livelihoods, in terms of both broad policy reforms and specific interventions

Detailing the impacts of conflict: micro-level and case study evidence. Includes highly contextual qualitative case study evidence focusing on analyses of how people, communities and businesses respond to conflict, and micro-level quantitative evidence focusing on the transmission mechanisms (e.g. human capital formation) through which conflict affects poverty, incomes and growth

Enabling (economic) environments: growth diagnostics and business climate evidence. Broadly focused on business and investment climates, this category contains growth diagnostics evidence identifying the most severe 'binding constraints' on economic growth in conflict-affected situations; and macro-level Doing Business / firm-level Enterprise Survey evidence measuring investment climates

What do we know? Reading the evidence

Using the mapping exercise as a starting point, we reviewed the literature and identified three broad thematic areas of focus.

The impacts of conflict on growth, economic activity and livelihoods
A substantial part of the literature focuses on the impacts of violent conflict on livelihoods and economic activity at various scales. Making sense of the multiplicity of impacts is a challenge in itself, but our analysis suggests they can be organised around a set of five focal points. These include:

- **Human and physical capital.** Infrastructural depletion and asset loss are a major part of the story associated with conflict and insecurity, as demonstrated by evidence from DRC to Uganda, and it is clear that a strong negative relationship exists between violent conflict and educational outcomes (Justino, 2011). Effects can be significant and long-lasting, although experiences of relatively rapid recovery have been observed in places as diverse as Sierra Leone and Vietnam.

- **Perceptions, attitudes and social capital at the local level.** Breakdown and loss are only part of the picture, with the evidence on individuals' attitudinal responses to conflict speaking far more to the transformative potential of war (see Cramer, 2006). New quantitative micro-level evidence suggests that: in Burundi, individuals experiencing higher levels of violence tend to exhibit more altruistic behaviour (Voors et al., 2012); that, in Nepal, greater exposure to violence is associated with a greater willingness to contribute to a collective good (Gilligan et al., 2011); and that, in Georgia, children exposed to warfare during the conflict over South Ossetia are more likely to display egalitarian motives (Bauer et al., 2011).

- **Coping strategies and risk management.** What is striking about the literature on people's responses to conflict is the sheer range and diversity of activities employed in the face of violence and disruption. A large body of highly contextual qualitative evidence suggests households manage risk in a number of ways, variously adopting strategies of minimisation (cultivating low risk, low value crops), avoidance (migrating to urban areas) or spreading (diversifying income sources), and sometimes increasing their engagement with markets (seeking arbitrage opportunities in and around IDP camps). However, while coping strategies and risk management are testament to the resilience of human agency under difficult conditions, it must be understood that what makes livelihood strategies in conflict-affected situations distinct is that they are underpinned by structures of violence, coercion and threat.

- **Markets and the private sector.** Countries and regions affected by conflict are some of the toughest places in the world to do business, forcing private companies to find innovative ways to continue operating and generate revenue. And while some emerging evidence suggests that conflict can increase levels of self-employment and catalyse entrepreneurial activity at the micro-level, broadly speaking our understanding of the links between war, household economic activity and (labour) market outcomes is relatively weak.

- **Aggregate economic activity.** There is a large body of cross-country econometric evidence on the economic costs of conflict at the national level. This particular literature is fairly resolute that conflict produces significant economic losses and very few (if any) positive economic impacts, the central finding being Collier's (1999) widely cited estimate that, for each conflict-year, a country loses about 2.2% in economic growth. However, concerns over the methodological robustness of econometric approaches to the study of economic growth mean it is important to treat the messages emerging from this literature with caution (Rodríguez, 2007).

The (in)effectiveness of programming
A range of economic and livelihood interventions are implemented in conflict-affected environments. In such contexts, many of these interventions face what might be termed a dual imperative – generate growth / support livelihoods and consolidate peace – meaning that programmes are often assigned hugely (and possibly overly) ambitious objectives.

Yet, although relatively large, the evidence base on programme impact tends to be of low quality, with outputs often privileged over impacts and questions of internal programme design frequently taking precedence over external outcomes for beneficiaries. What's more, many studies and reports fail to include adequate information on their methodologies or data sources, making it difficult to accurately appraise the reliability of their conclusions and recommendations. Given the primary purpose of these studies – to provide practical policy guidance on ways to support livelihoods and engineer growth – this lack of clarity is particularly concerning.

Furthermore, perhaps because of the absence of high quality impact data, largely unjustified assumptions about the effectiveness of particular interventions often shape policy and programming choices. To take but one example, job creation has been championed by various segments of the donor community as a pathway towards stability and prosperity in conflict-affected countries, with two World Development Reports in the last two years promoting the need for more jobs in countries emerging from war, and newly inaugurated World Bank President, Jim Yong Kim, recently arguing that the 'creation of many new jobs' can help a 'fragile state lose its fragility' (Kim, 2012). However, such enthusiasm appears to be based more upon a weak understanding of complex and contextual labour market dynamics and a simplistic reading of the relationship between (un)employment and violence than on robust impact data. As such, there is a strong case to be made for a more restrained handling of such interventions in contexts of fragility and conflict.

Making livelihoods and doing business: the role of enabling environments
The broader policy and institutional climate may be just as, if not more, important to livelihoods and economic activity than individual programmes. For example, states' policies in areas such as agriculture and natural resource extraction or the kinds of broad economic reforms backed by donors can have real (but difficult-to-measure) impacts on the activities of households and businesses. In other words, the environment in which livelihoods are made and business is done matters. Recognising this, states and aid agencies attempt to put in place the 'right' kinds of conditions to form an enabling environment for recovery and development, particularly in post-conflict settings.

For a number of years, external efforts to construct enabling environments have been largely built around neoliberal political and economic principles, and – arguably as a result – have remained remarkably formulaic and seldom context specific. One new approach being promoted by some as an antidote to 'one-size-fits-all' policy making is growth diagnostics – an exercise that can be used to work out policy priorities for promoting economic growth in developing countries. Pioneered by development economists Ricardo Hausmann, Dani Rodrik and Andrés Velasco (2005), growth diagnostics exercises involve identifying the most important 'binding constraints' on economic growth through a careful questioning of context and a robust assessment of the available data and evidence, so that appropriate reform policies can be pursued.

To date, growth diagnostics have been run in 13 conflict-affected situations. But, despite generating several findings of value (for example, the importance of agriculture to prospects for growth), the growth diagnostics approach has clear limits. In particular, many diagnostics exercises appear to be based upon a series of assumptions about the role of markets and the functioning of states that often do not hold true in reality, and national level analytical framings – still the rule rather than the exception – neglect huge variation within countries.

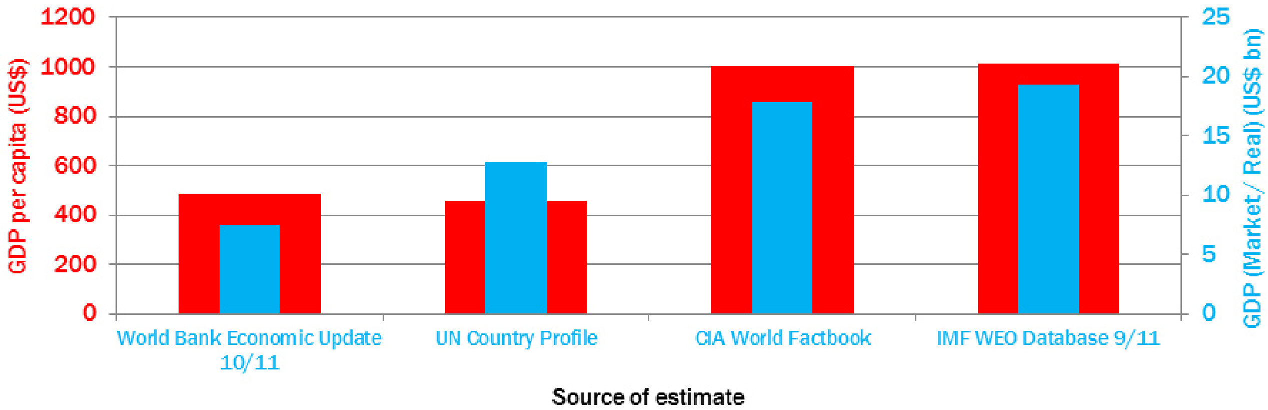
More broadly, issues of informality appear to have been largely neglected both by the literature and in programme design, despite growing recognition that an understanding of informality is important for explaining processes, patterns and outcomes. Growth diagnosticians, for example, are more concerned with formal economies and technical constraints than informal economic activity and socially embedded norms, and interventions by states and aid agencies have been accused of ignoring the role of informal institutions in mediating programme impact (Pain, 2012). Some of these criticisms also apply to the use of macro-level Doing Business indicators and firm-level Enterprise Surveys to measure investment climates (Leo et al., 2012).

What are we missing? Critiquing the evidence

As mentioned, the literature on livelihoods and growth in conflict-affected situations is, generally speaking, very light on evidence of programme impact. Perhaps as a result of the potency of conventional wisdoms and narratives of success, there does not appear to have been much of a 'culture' of doing impact assessments in the past (although there are signs that this might be changing).

Of similar concern is the uncertainty surrounding the accuracy and appropriateness of national-level economic data, notably Gross Domestic Product (GDP) – the 'most important variable in analyses of economic growth' (Henderson et al., 2011: 1). Although growth rates appear promising in many conflict-

Figure 1: The inconsistency of Afghanistan's GDP estimates raises questions over their use for policy making



Source: Cordesman (2012: 8).

affected countries, shortcomings associated with attempts to measure economic activity at the aggregate level – including the (un)reliability of national accounts data, a failure to include information on (often large and expanding) informal economies, and an inability to capture sub-national dynamics and variation – seriously call into question the widespread practice of using such data as a basis for policymaking in places like Afghanistan (Figure 1 illustrates the inconsistency of Afghanistan's current GDP estimates).

However, there are an increasing number of alternative approaches to measuring economic activity that may help to generate more accurate, more grounded and more usable evidence on economic processes occurring at various levels.

Conclusions and recommendations

The evidence base on growth and livelihoods in fragile and conflict-affected situations sheds some light on the socio-economic impacts of war, the kinds of interventions that might be suitable for implementation, and the role of enabling environments in shaping development processes and outcomes. But it stops well short of providing robust explanations of variation and reliable lessons for programming.

Our understanding of various aspects of the economics of conflict, and of affected places, appears particularly weak – a problem exacerbated by the methodological divide between statistical, aggregate level studies into growth and smaller-scale, more context-specific research into people's livelihood strategies and local economy activity. Emerging from this is an implication that future growth analyses should pay greater attention to sub-national dynamics and variation, informal economic activity, and the micro-foundations or 'building blocks' of growth.

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