Secure Livelihoods Research Consortium

Researching livelihoods and services affected by conflict

# Growth and Livelihoods in Fragile and Conflict-Affected Situations

Working Paper 9

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# About us

Secure Livelihoods Research Consortium (SLRC) aims to generate a stronger evidence base on how people make a living, educate their children, deal with illness and access other basic services in conflict-affected situations (CAS). Providing better access to basic services, social protection and support to livelihoods matters for the human welfare of people affected by conflict, the achievement of development targets such as the Millennium Development Goals (MDGs) and international efforts at peace- and state-building.

At the centre of SLRC's research are three core themes, developed over the course of an intensive one-year inception phase:

- State legitimacy: experiences, perceptions and expectations of the state and local governance in conflict-affected situations
- State capacity: building effective states that deliver services and social protection in conflict-affected situations
- Livelihood trajectories and economic activity under conflict

The Overseas Development Institute (ODI) is the lead organisation. SLRC partners include the Centre for Poverty Analysis (CEPA) in Sri Lanka, Feinstein International Center (FIC, Tufts University), the Afghanistan Research and Evaluation Unit (AREU), the Sustainable Development Policy Institute (SDPI) in Pakistan, Disaster Studies of Wageningen University (WUR) in the Netherlands, the Nepal Centre for Contemporary Research (NCCR), and the Food and Agriculture Organization (FAO).

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# Abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| AREU | Afghanistan Research and Evaluation Unit |
| AusAID | Australian Agency for International Development |
| BISP | Benazir Income Support Programme |
| CAS | Conflict-affected Situation |
| CIA | Central Intelligence Agency |
| CIDA | Canadian International Development Agency |
| COMSATS | Commission on Science and Technology for Sustainable Development in the South |
| CSO | Civil Society Organisation |
| DFID | UK Department for International Development |
| DNA | Damage and Needs Assessment |
| DRRC | District Reconstruction and Rehabilitation Committee |
| DSC | Divisional Steering Committee |
| EU | European Union |
| FAO | Food and Agricultural Organization |
| FANA | Federally Administered Northern Areas |
| FATA | Federally Administered Tribal Areas |
| FODP | Friends of Democratic Pakistan |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| HRCP | Human Rights Commission of Pakistan |
| HRDS | Human Resource Development Society |
| IDP | Internally Displaced Person |
| IRDP | Integrated Rural Development Programme |
| IUCN | International Union for Conservation of Nature |
| KP | Khyber Pakhtunkhwa |
| M4P | Making Markets Work for the Poor |
| MDG | Millennium Development Goal |
| MDTF | Multi-donor Trust Fund |
| NDMA | National Disaster Management Authority |
| NGO | Non-governmental Organisation |
| NORAD | Norwegian Agency for Development Cooperation |
| NRG | Nepal Research Group |
| NWFP | North-west Frontier Province |
| ODA | Official Development Assistance |
| ODI | Overseas Development Institute |
| OCHA | UN Office for the Coordination of Humanitarian Affairs |
| OECD | Organisation for Economic Co-operation and Development |
| PaRRSA | Provincial Relief, Rehabilitation and Settlement Authority |
| BKPAP | Bacha Khan Poverty Alleviation Programme |
| PBM | Pakistan Bait-ul-Mal |
| PCNA | Post Crisis Needs Assessment |
| PCP | Pakistan Centre for Philanthropy |
| PDMA | Provincial Disaster Management Authority |
| PSC | Provincial Steering Committee |
| SDPI | Sustainable Development Policy Institute |
| SLRC | Secure Livelihoods Research Consortium |
| SDPC | Social Development Policy Centre |
| SPO | Strengthening Participatory Organisation |
| SRSP | Sarhad Rural Support Programme |
| SSG | Special Support Group |
| SSG | Special Support Group |
| SDPI | Sustainable Development Policy Institute |
| UK | United Kingdom |

| | |
|---|---|
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UNESCO | UN Educational, Scientific and Cultural Organization |
| UNFPA | UN Population Fund |
| UNHCR | UN High Commission for Refugees |
| UNICEF | UN Children's Fund |
| UNIFEM | UN Development Fund for Women |
| US | United States |
| USAID | US Agency for International Development |
| VCD | Value Chain Development |
| Village-AID | Village Agricultural and Industrial Development Programme |
| WDI | World Development Indicators |
| WFP | World Food Programme |
| WUR | Wageningen University |

# Preface

This paper is one of a series of evidence papers produced by the Secure Livelihoods Research Consortium (SLRC) as part of its inception phase (January 2011 to March 2012). Seven country evidence papers have been produced (Afghanistan, Nepal, Pakistan, Sri Lanka, South Sudan, Uganda and DRC) and are supported by two global evidence papers focusing on social protection and basic services, and growth and livelihoods respectively. Each paper systematically explores and assesses the available evidence about livelihoods, social protection and basic services in the country. The papers do not attempt to generate new data, nor produce new analyses. Rather they assess what is already known and review the quality of the current evidence base. The papers, along with a series of global and country-based stakeholder holder consultations, have been used to formulate the future research agenda of the SLRC.

This paper was written by Richard Mallett and Rachel Slater. Samuel Carpenter was heavily involved in the research for and writing of Section 4. Significant contributions were also made by Mathieu Tromme and Paul Harvey. John Farrington and Karen Ellis produced specific inputs on livelihoods and growth, respectively, which helped inform both the framing and content of the discussion herein. Special thanks to Frank Ellis, Ian Christoplos, Robert Blair and three anonymous DFID personnel for providing valuable and helpful feedback on an earlier draft of the paper. Thanks to Roo Griffiths for editing. Responsibility for the arguments and views presented in the paper lie with the authors and do not necessarily reflect the views of SLRC partner organisations or the UK Department for International Development (DFID) which funds the SLRC.

Due to the size of this paper, a particular attempt has been made to increase its accessibility and navigability to readers. Below, for example, is an 'intervention tracker', through which readers can easily identify which interventions are covered and access these quickly through a series of hyperlinks. Similarly, consistent cross-referencing throughout the paper – again, with hyperlinks for better accessibility – helps to signpost relevant additional information and related sub-sections within the review.

## Intervention tracker

# Executive summary

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 recent years have seen a marked increase in the level of interest directed towards conflict-affected situations – or, to use the more common (and more contested) terminology, 'fragile states' – 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 (Section 1).

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 'fragile states agenda', this review synthesises the available evidence on livelihoods and growth in fragile and conflict-affected situations with the aim of identifying key findings (what do we know?), pinpointing specific weaknesses in the literature (what are we missing?) and shedding light on the nature and composition of the evidence base (what are we dealing with?). It brings together an extensive range of sources, identified through a rigorous and comprehensive search methodology, and uses this material as the basis for a mapping exercise whereby the literature is disaggregated into a number of different types or 'categories' of evidence (Section 2). We find that four such 'categories' appear to dominate the burgeoning literature on growth and livelihoods in fragile and 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

Using this mapping exercise as a starting point, the review then presents and critically assesses the content of the synthesised literature. Three broad thematic areas are identified.

We first explore the impacts of conflict on growth, economic activity and livelihoods (Section 3). Making sense of the multiplicity of impacts is a challenge in itself, ranging as they do from: the highly visible (destruction of physical infrastructure) to the less tangible (psychological trauma); from the direct (loss of life through warfare) to the indirect (welfare losses through displacement); and from the local (shifting patterns of household economic activity) to the national (declines in GDP). However, our analysis suggests that impacts can be organised around a set of five focal points: human and physical capital; perceptions, attitudes and social capital at the local level; coping strategies and risk management; markets and the private sector; and aggregate economic activity. The evidence found within the literature helps us make sense of the multiple effects of war, the channels or mechanisms through which conflict shapes livelihood and growth outcomes, and the variety of ways individuals, households, communities and businesses cope and respond.

Second, we look at the effectiveness of programming, providing overviews of the kinds of economic and livelihood interventions being rolled out (or championed) in conflict-affected situations and summarising the evidence on outcomes and impacts (Section 4). (In an attempt to increase the accessibility of this review, an 'intervention tracker' is provided in the Preface on page *vi* which enables readers to quickly access sub-sections on particular programmes via hyperlinks.) Although relatively sizeable, the evidence base on programme impact in conflict-affected situations tends to be of low quality, with outputs often privileged over impacts and questions of internal design frequently taking precedence over the experiences of beneficiaries. More fundamentally, 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 silence is particularly concerning.

Maintaining the broad focus on engagement but switching perspective, Section 5 considers the importance of enabling environments for successful economic and livelihood recovery, exploring the various elements of their construction. We focus on: the role of domestic government policies in mediating the activities of, and outcomes for, households and businesses (included in this particular sub-section is a discussion of growth diagnostics evidence); the role of informal institutions in mediating the experience and effects of programmes and policies; and dominant approaches to external economic engagement in conflict-affected situations. Throughout the discussion we draw attention to flaws, tensions and uncertainties in current economic practice, highlighting in particular the questionable positioning of economic growth as a means to achieving peacebuilding outcomes and the persistence of standardised, neoliberal-oriented economic models.

Having synthesised the main findings emerging from the vast literature (and the various 'categories' of evidence found within it), we then pinpoint certain methodological problems with the evidence base and flag up key knowledge gaps (Section 6). Of particular concern is the uncertainty surrounding the accuracy and appropriateness of national-level economic data, notably Gross Domestic Product: although growth rates appear promising in many conflict-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 – seriously call into question the widespread practice of using such data as a basis for policymaking in places like Afghanistan. In an attempt to provide constructive ways forward, we outline some possible alternatives for measuring economic activity – alternatives that may help to generate more accurate, more grounded and more usable evidence on economic processes occurring at various levels.

Due to the size of this review, a particular attempt has been made to increase its accessibility and navigability to readers. As mentioned, in the Preface (page *vi*), an 'intervention tracker' can be found which acts as a kind of 'contents page' for specific programmes; readers can easily identify which interventions are covered and access these quickly through a series of hyperlinks. Similarly, consistent cross-referencing throughout the paper – again, with hyperlinks for better accessibility – helps to signpost relevant additional information and related sub-sections within the review.

# 1 Introduction

> The legacies of contemporary armed conflict are devastating: death, disease, destruction, population displacement, economic dislocation, human and capital flight, massive impoverishment and social breakdown [...] [But] even for those countries that do suffer extensive economic and institutional destruction, what remains is not a tabula rasa. Wars do not destroy economic life altogether
>
> UNDP, 2008: 15

Decades of research and observation have taught us much about the devastating socioeconomic impacts of war and violence. During and after conflict, loss of life – the 'most visible direct impact of armed civil conflict on household welfare' (Justino, 2009: 7) – can be massive, and tends to be accompanied by a wide range of negative outcomes at the local level, from severe educational losses to household asset depletion to psychological deterioration. People's responses – how they deal with violent shocks – can also lead to problematic situations, sometimes creating cycles of negative coping whereby individuals become unable to rebuild their social and financial capital.

The consequences for economic activity, while perhaps less tangible, are also highly concerning. In 2007, for example, per capita gross domestic product (GDP) grew at just 2.6% in countries defined as 'fragile', whereas it reached 4.6% in low-income countries (OECD, 2009). The World Bank (2011) shows that the average cost of starting a business is 184% of per capita GDP in a conflict-affected country in Africa compared with 61% in a low-income country and just 26% in a middle-income country. In addition, 24 of the 25 worst countries in the world for 'doing business' are classified as fragile or conflict-affected – up from 20 a few years ago (see Peschka, 2011).

Places affected by large-scale violence and conflict therefore suffer disproportionately compared with their more stable and less volatile counterparts, and it is with some justification that violent conflict has come to be identified over the years as a major barrier to development (Barron et al., 2011).

Yet, although recent years have seen a marked increase in the level of interest directed towards conflict-affected situations – or, to use the more common (and more contested) terminology, 'fragile states' – 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 the impacts of war – 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 (ODA) budget in fragile and conflict-affected situations 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 'fragile states agenda', this review synthesises the available evidence on livelihoods and growth in fragile and conflict-affected situations with the aim of identifying key findings, pinpointing specific weaknesses in the literature and shedding light on the nature and composition of the evidence base. It brings together an extensive range of sources, identified through a rigorous and comprehensive search methodology (see below), and uses this material as the basis for a mapping exercise whereby the literature is disaggregated into a number of different 'categories' of evidence. This is a useful exercise in and of itself, not only because it helps us make sense of the mass of existing information, but also because it tells us what kinds of evidence dominate the literature, what kinds are lacking and how the evidence on livelihoods and growth relate to each other. Using this mapping exercise as a starting point, the review then presents and critically assesses the content of the synthesised literature, organising the discussion around two core themes: the impacts of conflict and the effectiveness of interventions. Given that this review is concerned first and foremost with the question of 'what we know', particular attention is paid throughout the paper to the evidence in terms of its extent, quality, limits and rigour – something that has arguably been lacking in many literature reviews of past.

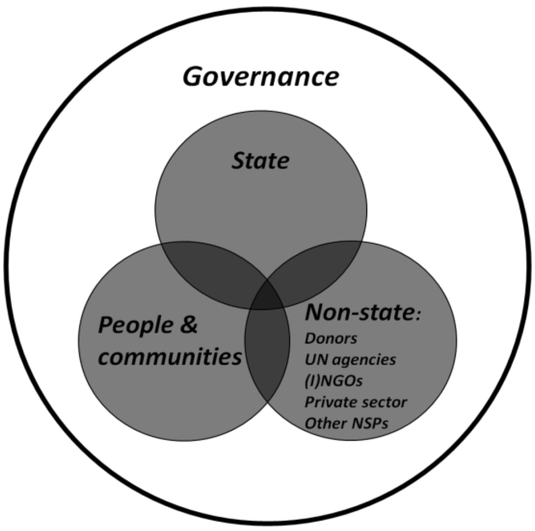
## 1.1 Research questions and analytical framework

The review process for this paper was guided by a series of research questions, formulated in early 2011 by the research directors of the Secure Livelihoods Research Consortium (SLRC).

1. *People:* What is known about peoples' own responses, disaggregated by gender, to conflict and their tactics for maintaining their livelihood?
2. *Governance:* How do state and society interact in the institutional arrangements that mediate livelihoods and economic activity? What are the gender dimensions of these interactions?
3. *Aid:* What aid is being provided and what is its effectiveness in supporting people's livelihoods? What is known about the gendered impact of aid?
4. *Private sector:* What is known about the role of the private sector in supporting livelihoods and stimulating multipliers and growth linkages?
5. *Linkages:* What linkages between people/aid/governance determine outcomes in relation to livelihoods?
6. *Data:* What current data exist on livelihoods and growth, and what is the quality?
7. What is the *quality* of the current evidence (including the extent to which gender is analysed)?
8. What types of *methods* are currently being used to research livelihoods and growth?
9. What are the *gaps* in the evidence, research methods and secondary data?

Implicit in these research questions is an analytical framework focused on three spheres: people and communities, the state and non-state actors. This framework – illustrated in Figure 1 and originally intended to inform both the analysis of retrieved material and the structure of this review – throws into sharp relief the interactions, tensions and hybrid institutional forms that occur among these analytical frames.

**Figure 1: Original SLRC analytical framework**




**Source: SLRC, internal**
**Note: (I)NGOs refers to (International) Non-Governmental Organisation; NSP refers to Non-State Providers**

Areas of overlap are of particular importance in relation to fragile and conflict-affected situations, as they encompass the interactions and linkages between people, state and non-state actors that can be vital in determining humanitarian, development, and state-building outcomes. Therefore, this framework helps to us heed the call to go 'beyond "civil society" or "state-based" approaches to focus on their intersection, through new forms of participation, responsiveness and accountability' (Gaventa, 2004: 27).

Governance is deployed as an all-encompassing frame as it is understood that all interactions between different actors in fragile and conflict-affected situations are mediated by a multitude of processes of governance, operating at and across the household, community, local, national, regional and global levels. This is not to underestimate the importance of the role of the state in governance arrangements, but serves as a means to assess what the evidence tells us about how, and the extent to which, patterns of governance from the household level to that of global aid flows mediate people's livelihoods and processes of economic growth.

However, applying the original SLRC analytical framework to this review paper has not been straightforward.[1] While the framework proves useful insofar as it helps disentangle key actors and strategies, structurally speaking it is not consistent with the nature and composition of the evidence on growth and livelihoods. Fortunately, researching this paper has been an ongoing, iterative process, which has allowed us to rethink and tailor the way we approach the evidence and present the findings on growth and livelihoods. Thus, rather than attempt to shoehorn the mass of literature and evidence we have come across into the analytical categories outlined above, we have opted for a more straightforward (and less prescribed) mapping of the evidence base on growth and livelihoods.

## 1.2 Methodology

We paid particular attention to developing a methodology for this review that was as rigorous and comprehensive as possible, given the usual constraints of time and budget. Annex 1 presents a full description and explanation of the methodology. Put briefly, in order to identify and analyse the relevant existing literature, we developed a three-track system that comprised:

1. Two focused systematic reviews (on what is known about the impacts of seed and tools interventions in fragile and conflict-affected situations, and what is known about the impacts of 'markets for the poor' (M4P) in fragile and conflict-affected situations);
2. A systematic snowball approach that began with references to key research made by recognised experts in each field; and
3. A more orthodox search of citation databases, internet search engines and institutional websites, as well as a review of key recently published studies circulated by various members of the SLRC.

Analysis was supported by sectoral specialist inputs on livelihoods (John Farrington) and growth (Karen Ellis).

## 1.3 Structure

Section 2 lays the groundwork for the review, sketching out relevant theory and presenting the findings of the evidence mapping exercise. Having mapped the literature, we then discuss the main findings emerging from the evidence. Three broad thematic areas are identified: the impacts of conflict on livelihoods, economic activity and growth (Section 3); intervention and programme effectiveness (Section 4); and the importance and construction of 'enabling environments' (Section 5). Reflecting on these findings as well as the nature of the literature reviewed, Section 6 pinpoints problems with the existing evidence base and raises key challenges for policymaking. Section 7 concludes.

[1] We used the full complement of evidence identified through this and other SLRC reviews (Carpenter et al., 2012; Fernando and Moonesinghe, 2012; Gelsdorf et al., 2012; Maxwell et al., 2012; Pain, 2012; Shahbaz et al., 2012; Upreti et al., 2012; Weijs et al., 2012) to test whether we could use this framework to organise the future SLRC research programme. Ultimately, we found the overlaps to be so significant that to separate research into 'people, state and non-state' components would not yield useful analysis. SLRC's research programme is now organised around three specific yet interlinked research themes in which each of the different actors is embedded (see http://www.securelivelihoods.org/content/2251/What-we-do).

# 2 Sketching out the concepts and mapping out the evidence

## 2.1 Livelihoods

Drawing on Chambers and Conway (1991) and Scoones (1998), the development studies literature tends to define livelihoods as comprising the capabilities, assets (including both material and social resources) and activities required to ensure a means of living. Since the early 1990s, many different frameworks for analysing livelihoods have emerged, all of which are variations on the same set of principles and components (see Carney, 1998; Chambers and Conway, 1991; Frankenberger et al., 2000; Oxfam, n.d.; Scoones, 1998; SDC, 2008). The basis for most frameworks consists of the types of capital assets households can deploy to make a living (often described as a combination of physical, natural, financial, human and social capital assets) and the wider context in which they are deployed (often described as comprising elements of vulnerability, policies, institutions and processes).

Despite the popularity of using livelihoods frameworks as analytical and (sometimes) programming tools, 'livelihoods' is a difficult concept to pin down. In this review, we make a distinction between taking a 'livelihoods lens' and looking at 'livelihoods interventions'. We see the former as assessing the broad range of influences on how people make a living by looking across all sectors – health, education, agriculture, infrastructure, water and so on; the latter is about looking at programmatic interventions that essentially enhance people's incomes by increasing their asset portfolios (through provision of infrastructure, transfers, training, etc.).

In the humanitarian sector, programming that focuses on saving livelihoods as well as lives has been a key thrust of action for some time. But livelihoods and frameworks for analysing them require adaptation in emergency or conflict-affected situations, both to ensure they capture immediate threats to lives and livelihoods and so they recognise the complexity of livelihoods in such contexts (Oxfam, n.d.; Young et al., 2002). In conflict-affected contexts, Longley and Maxwell (2003) argue that 'development context' livelihood frameworks are inadequate: first, their vulnerability context relates more to climatic, economic or political shocks and stresses rather than to the structures and impacts of power relations; and second, temporal dimensions, while recognised, are not sufficiently incorporated into the analysis. Collinson (2003) argues that livelihoods analysis in conflict requires paying greater attention to political economy, and Alinovi et al. (2007) note that livelihoods interventions depend on the enabling environment, such as the presence or absence of efficient judicial, legal and political systems or economic programmes (e.g. public employment). This complexity calls for a different type of analysis and/or a different set of responses, to be informed by a proper understanding of institutions and governance structures, as well as people's motivations and responses in crisis (Alinovi et al., 2007). Overall, the discussion on how far livelihoods approaches are relevant to conflict-affected contexts has stimulated a number of observations, among them:

- That livelihoods must be informed not only by conditions at the household level, but also by a broader understanding of the potential impact on livelihoods of changing conflict and political dynamics and of agency interventions.
- That strategies are crucial for dealing with threats and vulnerability contexts if the desired livelihood outcomes are to be achieved, and these can include *avoidance* (escaping the threat, e.g. by travelling at night), *containment* (living with the threat, e.g. paying militia for protection, travelling to markets in groups) and *confrontation* (fighting back, e.g. through self-defence groups) (see Jaspars and O'Callaghan, 2010a).
- That the impacts of protracted crises on food security differ from those of shorter emergencies.
- That desired livelihood outcomes are geared not only towards *accumulating* assets but also towards *adaptation* (e.g. to spread risks), *coping* (i.e. to reduce the impacts of shocks, e.g. through changes in the relative balance of assets) and to *survival* (to prevent destitution and death, even if this requires the sale of some assets) (Devereux, 2009).

- That social networks are crucial where formalised provisions (e.g. rule of law, property rights, contract enforcement) are absent (Pain, 2002), although Longley and Maxwell (2003), citing Richards (1996), argue that in Sierra Leone rebels deliberately damaged social networks by creating fear and suspicion within communities, and in the Rwandan genocide social relations were manipulated with fatal outcomes.
- That people have livelihoods before, during and after the conflict, and that a prolonged emphasis on emergency relief ('saving lives') may detract from the attention necessary to decrease vulnerabilities in order to establish a platform from which livelihoods can be improved. With this in mind, CARE (2003) has moved away from conventional 'relief–development continuum' thinking towards a risk management model that acknowledges not only the danger of 'getting stuck' in long-term safety nets but also the fact that many activities may be going on simultaneously, possibly unrelatedly.
- To capture such contextual specificity, this review draws on Young et al. (2002: 11) to define livelihoods as comprising 'the ways in which people access and mobilize resources that enable them to pursue goals necessary for their survival and longer-term well-being, and thereby reduce the vulnerability created and exacerbated by conflict'.

## 2.2 Growth

Numerous theoretical frameworks regarding economic growth exist (Lucas, 1988, Romer, 1986 and Solow, 1956 have been particularly influential; for more recent contributions to the theoretical literature see, e.g., Frenken and Boschma, 2007 and Silva et al., 2005). Given the purpose of this review, this sub-section does not pay close attention to the vast theoretical literature on growth, but rather provides a simple definition and highlights why we need to know more about economic activity and growth in fragile and conflict-affected situations.

Williams et al. (2011: S34) offer a useful, concise definition of growth:

> Growth is the expansion of output per capita over time. Theories of growth explain this phenomenon in causal terms, and highlight the role of factors of production (usually labour and capital investment) and total factor productivity. The latter refers to the efficiency by which production factors are combined, and is determined by technology, infrastructure and institutions, and the related policy and incentives framework.

The relationship between economic growth and conflict is multidimensional, multi-scaled and very complex, but there are three main reasons why growth in fragile and conflict-affected situations merits our attention.

First, poor growth and low incomes are correlated with higher incidences of conflict, albeit typically at the national level and with unclear causality. According to Fearon (2010), low income is one of the strongest correlates of a country having a higher propensity for civil war; Miguel et al. (2004) use rainfall variation as an 'instrumental variable' for economic growth in 41 African countries and find growth is strongly negatively related to civil conflict (with a negative growth shock of five percentage points increasing the likelihood of conflict by one-half the following year); and Blattman and Miguel (2010), in a review that is admittedly highly critical of the 'vast econometric literature' on the causes of civil war, report that low per capita incomes and slow economic growth tend to be the two factors most robustly linked to civil war. Shifting down geographical scales, recent evidence suggests higher poverty levels at local levels are linked to a greater likelihood of both violent conflict (Barron et al., 2009 on Indonesia) and higher intensity violent conflict (Do and Iyer, 2010 on Nepal).

Second, it is generally accepted that civil war, and other forms of conflict, are detrimental to economic growth. On this, the most frequently cited statistic is Collier's (1999) estimation that, for every year a country experiences civil war, GDP falls by 2.2%. Section 3.5 presents more detail on this and other evidence supporting the negative relationship. At the same time, growth estimates for many countries affected by conflict are surprisingly strong (see Table 2 and Figure 2) – although we have good reason to question the reliability of the data (see Section 6.1.2).

So, poor growth correlates with a higher risk of conflict and civil war with weaker growth rates. Yet, we still know relatively little about the specific mechanisms through which these processes occur, the relationship between conflict and growth at the sub-national level and how the economic (and other) effects of conflict may or may not persist over time (Justino, 2010).

Third, and more generally, Blattman and Miguel (2010) argue that conflict should be central to contemporary discussions of economic development and growth. War, accumulation and progress share an historical relationship (Cramer, 2006; Jones and Rodgers, 2011), still evident in the 21st century. Understanding what has an impact on growth in fragile and conflict-affected situations thus contributes to a broader awareness of the persisting role of coercion, power and violence in generating economic growth around the world.

## 2.3 And the connections in between

Livelihoods and growth share a complex, slightly ambiguous relationship. On the one hand, there are clear linkages between the two. Growth, taken as an expansion in per capita output, is essentially an aggregate estimation of economic activity occurring at smaller scales within the boundaries of a nation-state. On the other, variations in the way each one is conceptualised, measured and discussed sometimes lead to a sense of disconnectedness between the two. This sub-section provides a brief overview of the conceptual connections between livelihoods, economic activity and growth, and problematises the common view that growth is necessarily good for 'securing' livelihoods.

### 2.3.1 Unpicking growth and methodological issues

As mentioned above, theories of growth talk about 'factors of production' as key components of output (Williams et al., 2011: S34), and these include a range of capitals, from human to physical to natural. As soon as we conceptualise growth as being constituted through a set of 'micro-foundations', the relationship with people's livelihoods – what they own, what they use, what they do and how they do it – becomes clearer and more decomposable. Given that livelihoods tend to be framed at the micro level, with the household comprising the central unit of analysis, approaching growth via its main micro-foundations – human and physical capital – opens up a means of comparing the two. For example, a high-intensity conflict that prevents households from sending their children to school theoretically has an impact on both the livelihoods within that household as well as aggregate economic output. The main mechanism through which these impacts are transmitted is a loss in human capital (educational attainment), which in turn affects the future employment prospects of the children in question. The livelihoods upshot of this is that children's future ability to generate wealth is reduced, possibly affecting their wellbeing; the growth upshot is lower output per capita owing to diminished factors of production. However, important temporal differences may also come into play. For example, despite the longer-term trade-off involved in school absenteeism, the decision to keep children at home or to migrate elsewhere may secure vital livelihood outcomes in the short term, such as protection of human life. Thus, a micro-level lens appears useful in connecting livelihoods and growth.

The broader point here is that scale matters. We need to be clear about how we define and talk about livelihoods and growth – how do we frame them from a scalar perspective?

Indeed, the extent to which we are able to identify robust linkages between growth and people's livelihoods depends to some degree on the types of evidence we choose to focus on (see Section 2.4). Approaching the question of growth in conflict-affected situations from a cross-country, large-*N*, econometric perspective is so far removed from the highly contextual case study approach so prevalent within the livelihoods literature that forging connections between the two – building an understanding of their linkages – becomes a formidable, if not entirely unrealistic, challenge. The problem here is one of methodology and epistemology. While the case study approach embraces context and idiosyncrasy, large-N, cross-country studies develop abstract explanatory frames that are detached from the real world (Korf, 2011; see also Florea, 2012).[2] This is not to say that qualitative case study approaches are better than aggregate econometric ones, but rather that the evidence each produces serves different

[2] The phrase 'large-N' refers in this respect to studies that cover many countries.

purposes and tells us different things. We say more about the different types of evidence and literature in Section 2.4.

Continuing to discuss livelihoods at the micro level and growth at the macro level entrenches the distinction already created by the current fixation on GDP and other aggregate measurements of growth (see Section 6.1.2 for a more in-depth discussion of the limits of GDP data). But by focusing on economic activity at the local level and paying more attention to the micro-foundations of growth, we begin to blur the boundary. In practice, this might mean assessing the impact of interventions in terms of changes in beneficiaries' health or schooling indicators (e.g. DeLoach and Lamanna, 2011). Of course, by doing this, there is a risk of generating overlapping definitions. For example, do we class increases in household consumption and expenditure as livelihood outcomes or growth outcomes? What about increases in school attendance and educational attainment? And how would we categorise remittances, known to constitute vital sources of income for conflict-affected households but also to contribute significantly to GDP, as is the case in El Salvador (Harris and Foresti, 2011)? Such questions are not necessarily problematic, but they do raise an important issue for consideration.

### 2.3.2 Growth and 'secure livelihoods': not necessarily mutually reinforcing

Generally, growth is seen as good for societies and economies. By contrast, weak or negative growth is associated with fragility and conflict. As Zoellick (2009: 70, emphasis in original) argues, 'Fragility does not just mean low growth, but a *failure* in the normal growth process, such that poverty becomes a persistent condition. Weak governance, corruption and insecurity combine in a downward spiral.' From this perspective, fragility is viewed as an aberration, a disruption to 'normal' economic processes.

Yet, growth and livelihood security are not necessarily positively linked or always mutually reinforcing. Growth has been shown to reduce poverty, but its ability to do so depends on a range of mediating and contextual factors. In particular, there are two main reasons why the relationship between growth and livelihoods should be approached with caution. First, growth is not always even, and thus cannot be viewed as a universal catalyst of wealth accumulation at the household level. Second, supporting livelihoods and promoting growth may not always be complementary objectives, as Goodhand and Sedra (2007), Hailu and Weeks (2011) and Hanlon (2010) have all shown. Governments can divert expenditure away from social policies and towards industries and projects that produce healthy returns for GDP, but that distribute these very narrowly (the arms and defence industry is one example). Similarly, productive economic activity based on the appropriation of resources and the unsustainable use of assets is likely to be of considerable economic detriment to affected households.

## 2.4 Mapping the evidence base

The literature on livelihoods and economic growth in fragile and conflict-affected situations is burgeoning, and the nature of the evidence within it is highly heterogeneous. There is not one kind of knowledge on offer, but a whole set of what one might refer to as 'categories' of evidence. Each category has different characteristics, as well as a particular thematic focus, perhaps reflecting the interests and motivations of particular segments of the policy and research communities. The quality and rigour of the evidence also varies between (and within) categories, as does the potential of the evidence to convince and influence.

Our mapping of the evidence base on livelihoods and growth reveals four distinct categories (see Box 1).[3]

[3] It should be pointed out that these categories are crude and the boundaries between them permeable. Although mapping the literature in the way displayed here risks constructing artificial boundaries between the types of evidence, these boundaries are predominantly analytical and by no means immutable.

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

**Crunching the numbers: quantitative assessment and aggregate-level statistical evidence**

Including cross-country econometric evidence focusing on the economics of conflict onset, the GDP effects of war and aid effectiveness in fragile and conflict-affected situations (dominated by regression analyses of large N datasets); and quantitative description, analysis and measurement of livelihoods (e.g. Household Economy Approaches (HEAs), Vulnerability Assessment Mapping (VAM))

**What works? Programmatic evidence**

Offering '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; dominated by project evaluations and policy statements

**Detailing the impacts of conflict: micro-level and case study evidence**

Including 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

### 2.4.1 Crunching the numbers: quantitative assessment and aggregate-level statistical evidence

Over the past two decades, there has been a surge of quantitative research on civil war. Much of this borrows from, or is based directly on, econometrics – the use of statistical methods, particularly regression analysis, for the study of economic processes. Researchers in the World Bank's Economics of Civil War, Crime and Violence group have been among the most prolific users of this approach (Humphreys, 2003), and their work continues to prove influential among both research and policy audiences.

Econometric approaches have been used to test relationships between conflict and numerous variables, from terrain (Fearon and Laitin, 2003) and primary commodity exports (Collier and Hoeffler, 1998) to ethnicity (Reynal-Querol, 2002) and diaspora size (Collier and Hoeffler, 2004). The objective of much of this work is to explain either the origins or the duration of civil war by identifying which factors or variables constitute key determinants.

A substantial portion of this literature focuses on the relationship between civil war and economic growth. This particular literature contains a significant amount of evidence on, among other things (but primarily), the economic factors that lead to conflict, the economic consequences of conflict and aid effectiveness in fragile and conflict-affected situations. Yet, although the econometric evidence on growth and conflict is substantial, it is hampered by a series of problems that cast doubt over many of the literature's conclusions. These include inconsistencies in the classification of conflict events (Pottebaum, 2005); incomplete and inaccurate national-level data from conflict-affected countries (ibid.); the difficulty of establishing causality from cross-country regressions (Blattman and Miguel, 2010); and the use and subjective interpretation of proxy indicators (Humphreys, 2003).

Thus, while we can probably accept with some confidence a number of the 'headline' findings emerging from the econometrics literature (e.g. that slow and poor growth is associated with civil war, and that violent conflict reduces growth and economic development – see also Sections 2.2 and 3.5 for summaries of the literature's key findings), we must remember that not only are such results confined to the national or cross-country level, but also they tell us little about the *process* of conflict. Detached as they are from local context, econometric studies are unable to offer much beyond the identification of large-scale trends and patterns. Or, in other words, while 'enormously provocative' (Blattman and Miguel, 2010: 8), the value of this literature is limited.

The first category of evidence also contains quantitative description, analysis and measurement of livelihoods, such as Household Economy Approaches (HEAs) and Vulnerability Assessment Mapping (VAM). A relatively strong set of research reports describes how people make a living in fragile and conflict-affected situations. Our review suggests that 16 countries out of our long list of 66 fragile and conflict-affected countries (see Table 5 in Annex 1) have had HEAs completed over the past decade. These analyses tend to focus on particular regions or 'livelihood zones' within each country (e.g. Port-au-Prince in Haiti, or Batticaloa, Trincomalee and Ampara districts in eastern Sri Lanka). The Food Economy Group (FEG) has confirmed that there has been no analysis of what all these HEA reports tell us about livelihoods, either across conflict-affected countries or across all countries where they have taken place. At the time of this review's publication, with the exception of Misselhorn (2005), there have been no meta-analyses of HEAs or other descriptive measurement systems.[4]

So, while at the micro level these studies provide critical data on how people deploy assets in the face of conflict and are therefore very useful for those delivering programming in specific geographical locations (and perhaps adjacent areas) and at precise moments in time, it is not clear whether HEAs and other mapping systems can be of broader use. It should also be noted that not all HEAs conducted in fragile and conflict-affected countries (as defined by institutional criteria) relate their analysis explicitly to conflict or fragility.

### 2.4.2 What works? Programmatic evidence

Often either country specific or based on the experiences of a small number of countries, this category of evidence focuses principally on the practical mechanics of promoting economic growth and supporting livelihoods in conflict, and particularly post-conflict, situations. Much of this evidence comes from donor reports and is used to formulate 'lessons learnt' documents or policy guidance notes. It can be split broadly into two sub-categories: evidence on broad policy reforms and evidence on more specific interventions or programmes.

This literature can to an extent be considered evaluation evidence, focusing as it does on the effectiveness of policies and programmes. Yet, the empirical basis for much of the evidence is at best unclear and at worst completely missing. Indeed, what is striking about a great deal of the literature is the invisibility of basic information on methodology and data. It is therefore difficult to place much confidence in many of the evaluations on offer. Thankfully, this is not the case for all the case study evidence, and recent, more transparent research is beginning to provide a more robust evidence base on what works in promoting growth and livelihoods in (post-)conflict environments.

The findings of this literature are covered comprehensively in Section 4, which focuses on the effectiveness of growth and livelihoods interventions in fragile and conflict-affected situations (see also Table 1 for a broad overview of the characteristics of this category of evidence).

### 2.4.3 Detailing the impacts of conflict: micro-level and case study evidence

There is a considerable body of evidence on the micro-level impacts of conflict. Studies falling into this category tend either to qualitatively describe and analyse the responses of individuals, households and businesses to conflict (often through interviews and focus groups) or to quantitatively assess the impacts of conflict on human and social capital formation (often through the analysis of household survey data and, increasingly, the use of field experiments). In addition to detailing livelihood strategies and coping behaviour in conflict, such studies provide insights into processes and patterns of economic

[4] Save the Children and FEG are currently undertaking a meta-analysis of HEA data.

growth, focusing as they do on local economic activity and the transmission mechanisms through which conflict affects poverty, incomes and GDP.

The findings of this literature are covered comprehensively in Section 3, which focuses on the impacts of conflict on livelihoods; economic activity and growth (see also Table 1 for a broad overview of the characteristics of this category of evidence).

#### 2.4.4 Enabling (economic) environments: growth diagnostics and business climate evidence

With a strong policy focus, this category of evidence focuses on business and investment climates in conflict-affected situations. This evidence is primarily concerned with describing what a country's business climate or regulatory framework looks like, measuring private sector activity, diagnosing the key problems that are holding back private investment and economic growth, and prescribing workable policy solutions. It consists mainly of evidence generated through: i) growth diagnostics exercises (see below); and ii) World Bank-supported Doing Business reports and Enterprise Surveys (see Section 2.5.2).

Growth diagnostics are a new approach to working out policy priorities for promoting economic growth in developing countries. Pioneered by development economists Ricardo Hausmann, Dani Rodrik and Andres Velasco, growth diagnostics exercises (sometimes referred to as the HRV approach or HRV methodology) 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 formulated and implemented.

To date – and to our knowledge – a total of 33 growth diagnostics exercises have been carried out. Of these, 12 focus on countries 'officially' defined as fragile or conflict-affected (if we take the broadest, combined list of 66 countries affected by fragility and / or conflict). However, one regional growth diagnostic exercise on Aceh in Indonesia has clear conflict dimensions, which therefore merits its inclusion as 'conflict-affected'. Thus, a total of 13 growth diagnostics exercises have been conducted on conflict-affected countries and situations to date. These include: Aceh (Indonesia); Afghanistan; Northeastern Afghanistan; Bangladesh; Cambodia; Colombia; DRC; Kenya; Kosovo; Nepal; Pakistan; Togo; and Uganda. For brief summaries of each of these, see Table 6 in Annex 2.

Findings emerging from recent growth diagnostics evidence are covered in Section 5.1.2.

**Table 1: Categories of evidence in the literature on growth and livelihoods in fragile and conflict-affected situations**

| Category of evidence | Characteristics | Methods and data | Thematic focus | Key insights and findings | Limitations | Sample studies |
|---|---|---|---|---|---|---|
| **Crunching the numbers** | ▪ Quantitative<br>▪ Aggregate and cross-country level of analysis<br>▪ Data obtained from large-N datasets<br>▪ Use of regressions and other statistical methods for analysis<br>▪ Livelihood and vulnerability mapping; focus on 'livelihood zones' | ▪ Regression analysis<br>▪ Some robustness testing<br>▪ GDP figures<br>▪ Civil war databases<br>▪ Use of proxy indicators and instrumental variables (e.g. rainfall)<br>▪ HEAs; geographical mapping systems | ▪ Economics of conflict onset<br>▪ Economic costs of conflict<br>▪ Aid effectiveness<br>▪ Quantification of vulnerability<br>▪ Household coping in response to shocks | ▪ Conflict reduces economic growth at the aggregate and cross-country level<br>▪ Institutional quality and policies affect growth and the impact of aid<br>▪ Useful for identifying trends, patterns and correlations<br>▪ Livelihood patterns and household vulnerability differ sub-nationally; importance of geography | ▪ Use of proxy indicators is problematic<br>▪ Selective use of data<br>▪ Minor changes to selected variables can significantly vary the findings<br>▪ Minor changes to models can significantly vary the findings<br>▪ Weak explanatory function<br>▪ Mapping exercises can be overly descriptive; lack of meta-analysis | Collier and Hoeffler (2004); Collier et al. (2003); Fearon and Laitin (2003); Miguel et al. (2004)<br><br>For livelihood mapping: Misselhorn (2005) |
| **What works?** | ▪ Largely qualitative<br>▪ Focused at the country level: lessons based on experiences in single country or low number of countries<br>▪ Substantial number of donor reports and 'impact assessments'<br>▪ Policy guidance; practice oriented | ▪ Often unclear<br>▪ Interviews with donor, government or non-governmental organisation (NGO) staff<br>▪ Signs of increasing methodological rigour and transparency | ▪ Focus on both interventions (e.g. microfinance, seed aid) and wider reforms<br>▪ Timing and sequencing<br>▪ Contribution of interventions towards livelihood, economic and peace objectives | ▪ Policies and programming must be context driven (although this is not always the case)<br>▪ It is important to build on what is already there in terms of markets, institutions and systems<br>▪ Conflict-affected countries face particular barriers to economic growth, notably in relation to low capacity and a bad business climate | ▪ Project evaluations are often poorly designed and tend not to measure impact<br>▪ Information on methodology and data is often not presented in studies<br>▪ Studies lack rigour<br>▪ Possible conflict of interest in donor evaluations of own interventions<br>▪ Largely technical; neglect of political economy<br>▪ Focus on post-conflict at the expense of 'mid-conflict' and protracted conflicts | Beasley (2006); GTZ (2006); Parker (2008); USAID (2009) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Detailing the impacts of conflict** | ▪ Qualitative case studies of individual, household and business responses to conflict<br>▪ Quantitative assessments of impacts of conflict on human, social and physical capital<br>▪ Specific geographic location of many studies; highly contextual | ▪ Qualitative case studies draw on interview data and focus group discussions; some use of key informant interviews; reviews of secondary data sources<br>▪ Quantitative micro-level studies draw on cross-sectional or panel household survey data; also some use of experimental and quasi-experimental games<br>▪ Some robustness testing in quantitative micro-level studies | ▪ Coping strategies and adaptation<br>▪ Transmission mechanisms linking conflict and growth<br>▪ Impacts of conflict on human, social and physical capital | ▪ Conflict often exerts devastating impacts on physical and human capital<br>▪ Impacts are experienced heterogeneously across groups<br>▪ Conflict affects human behaviour and attitudes, in certain cases making individuals more altruistic and risk taking<br>▪ Coping strategies are extremely diverse and produce different outcomes<br>▪ The importance of human agency<br>▪ Some of conflict's micro impacts are short term, others are longer lasting | ▪ Problems associated with field experiments (e.g. controlling for context, internal and external validity, attribution, ethics) apply to much micro-level evidence<br>▪ Description sometimes privileged over attribution<br>▪ Qualitative evidence on coping and livelihood strategies is often highly contextual and hard to generalise from (over both geography and time) | Calderón et al. (2011); Jaspars and O'Callaghan (2010a); Justino (2010); Korf (2003); Miguel and Roland (2011); Seddon and Hussein (2002); Voors et al. (2012) |
| **Enabling (economic) environments** | ▪ Growth diagnostics: use of Hausmann et al. (2005a) growth diagnostics framework – a decision tree to identify binding constraints on growth; often focused at the national level<br>▪ Doing Business indicators and Enterprise Surveys both provide assessments of business climates | ▪ Any relevant secondary data used to identify binding constraints; firm and enterprise surveys feature strongly<br>▪ Some growth diagnostics draw on primary data collected through fieldwork<br>▪ Doing Business rely on information provided by experts<br>▪ Enterprise Surveys rely on questionnaires conducted with small and medium sized firms | ▪ Binding constraints on growth<br>▪ Focus on barriers to private investment and returns<br>▪ Business and investment climates; barriers to doing business | ▪ Common binding constraints include lack of access to finance, weak infrastructure and insecurity<br>▪ Good growth and strong economic activity can still occur in conflict-affected countries<br>▪ Exercises are useful for pinpointing specific economic problems<br>▪ Insecurity an important barrier to doing business but it's not all about conflict (e.g. problems with access to financing, corruption) | ▪ Models and surveys built on a number of normative assumptions<br>▪ Problems of data availability for growth diagnosticians in conflict-affected countries call into question validity of conclusions<br>▪ Heterogeneity of economic activity undermines a national level approach<br>▪ Not effective at capturing informal economic activity, which is common in conflict-affected situations<br>▪ Enterprise surveys are expensive and infrequently completed | IBRD and World Bank (2013); Lea et al. (2011); Sen and Kirkpatrick (2011); Ulloa (2008); Ulloa et al. (2009) |

**Note: This table makes generalities about each category of evidence and highlights broad comparisons between them. It is not intended to capture nuances within categories.**
**Source: Authors' elaboration**

## 2.5 Conflict-affected economies: key data

### 2.5.1 GDP: an imperfect proxy for economic growth

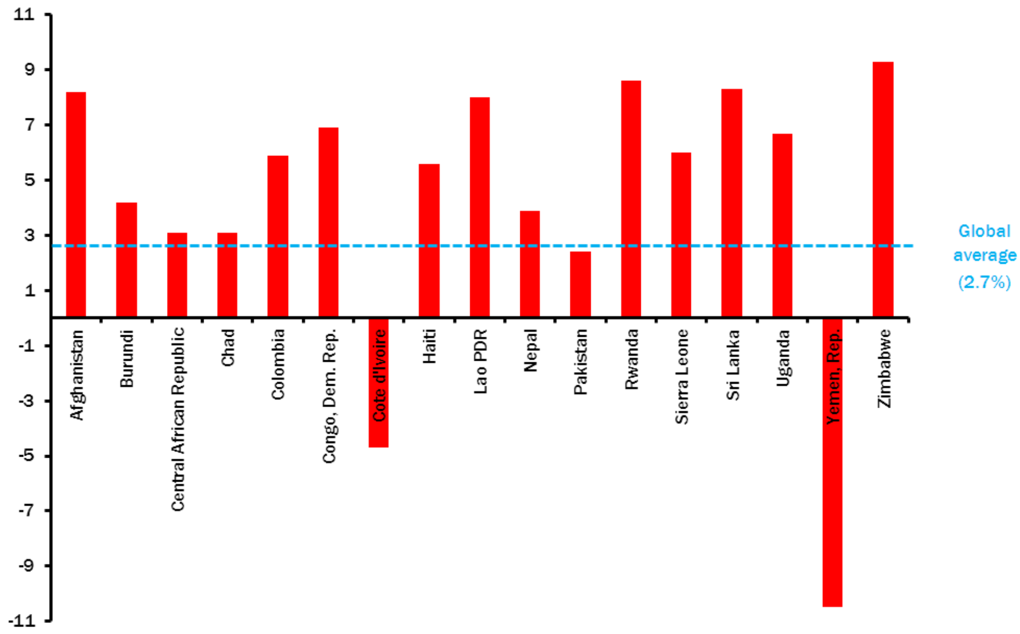
The economic performance of a country is usually assessed in aggregate, national-level terms and usually proxied (imperfectly) by GDP (see Section 6.1 for a critical discussion of this approach). For basic informational purposes, Table 2 and Figure 2 present 2011 GDP data for a selection of conflict-affected countries.

**Table 2: GDP data for selected fragile and conflict-affected countries, 2011**

| Country | GDP growth (annual %)* | GDP per capita (current US$)** |
|---|---|---|
| Afghanistan*** | 8.2 | 576 |
| Burundi | 4.2 | 271 |
| Central African Republic | 3.1 | 483 |
| Chad | 3.1 | 823 |
| Colombia | 5.9 | 7067 |
| Congo, Democratic Republic of | 6.9 | 231 |
| Côte d'Ivoire | -4.7 | 1195 |
| Haiti | 5.6 | 726 |
| Lao People's Democratic Republic | 8.0 | 1320 |
| Nepal | 3.9 | 619 |
| Pakistan | 2.4 | 1194 |
| Rwanda | 8.6 | 583 |
| Sierra Leone | 6 | 374 |
| Sri Lanka | 8.3 | 2835 |
| Uganda | 6.7 | 487 |
| Yemen, Republic of | -10.5 | 1361 |
| Zimbabwe | 9.3 | 776 |

Notes: * 1 decimal place; ** 0 decimal places; *** data for 2010.
Source: World Development Indicators.

**Figure 2: GDP growth figures for selected fragile and conflict-affected countries, 2011 (annual %)**




**Source: Table 2.**

What might be surprising to some is the prevalence of relatively strong GDP growth rates in countries generally thought to be economic backwaters. As Figure 2 shows, many conflict-affected economies are currently growing faster than the global economy. In fact, of the countries listed above, only Côte d'Ivoire, Pakistan and Yemen are growing at slower rates than the global average.[5] It is possible that some of this might be explained by 'peace dividends' – economic benefits brought about by the cessation of conflict (put crudely, a return to peace and stability is believed to promote economic activity and fuel greater productivity). However, there is good reason to be suspicious of these data – see Section 6.1 for more on this.

### 2.5.2 Measuring private sector activity

According to Hallward-Driemeier and Pritchett (2011: 2), over the last decade there have been two major research initiatives to measure the investment climate that businesses face in developing countries and to tell us something about private sector activity: the Doing Business project and Enterprise Surveys, both undertaken by the World Bank.

The Doing Business project, by collecting information from expert informants in each country, provides measures of business regulations and their enforcement across 183 economies, focusing in particular on domestic small and medium-sized enterprises (SMEs). Among other composite indicators, the project collects data on starting a business, dealing with construction permits, registering property, getting credit, and enforcing contracts. The Doing Business data offer a useful basis for comparing countries and tell us something about the kinds of obstacles businessmen and women face in countries affected by conflict. Of the 25 worst countries in the world for doing business, 24 are classified as 'fragile' or 'conflict-affected' (see Table 5 in Annex 1).

Enterprise Surveys gather responses from large, random samples of firms in the main urban centres of a country, with face-to-face interviews asking for quantitative information from firm owners and senior managers about how long it takes to get various regulatory procedures done and how much they cost (Hallward-Driemeier and Pritchett, 2011: 7). Acting as a complement to Doing Business indicators, they gauge the views of firms – particularly those in the manufacturing and service sectors – about business environment constraints. According to Leo et al. (2012: 12), as of mid-2011, Enterprise Surveys were available for 12 of the authors' sample of 14 African 'fragile states'.

[5] As it happens, the latter two are contracting.

The World Economic Forum (WEF) also collects data on business activity and economic environments through its Executive Opinion Survey, which aims to identify the most problematic factors for doing business. In its most recent *Global Competitiveness Report*, the WEF presents this data alongside other key economic indicators (see WEF, 2012). Table 3 highlights the two most problematic factors for doing business in selected fragile and conflict-affected countries. ‘Corruption’ and ‘access to financing’ are highlighted in red to emphasise the frequency with which they occur; this suggests that government or political instability may not necessarily be the most significant barriers to doing business in conflict-affected economies.

**Table 3: Problematic factors in doing business in selected fragile and conflict-affected countries, 2011 (% of respondents)**

| Country | Most problematic factor | Second most problematic factor |
|---|---|---|
| **Burundi** | Corruption (24.0) | Access to financing (17.8) |
| **Chad** | Access to financing (18.1) | Corruption (18.0) |
| **Colombia** | Corruption (18.0) | Inadequate supply of infrastructure (12.1) |
| **Côte d'Ivoire** | Access to financing (19.7) | Government instability/coups (19.6) |
| **Haiti** | Access to financing (17.7) | Inadequate supply of infrastructure (14.6) |
| **Nepal** | Government instability/coups (21.8) | Inefficient government bureaucracy (11.8) |
| **Pakistan** | Government instability/coups (12.8) | Corruption (11.6) |
| **Rwanda** | Access to financing (20.2) | Inadequately educated workforce (19.6) |
| **Sri Lanka** | Tax rates (15.7) | Tax regulations (14.6) |
| **Uganda** | Corruption (20.2) | Access to financing (17.6) |
| **Yemen, Republic of** | Inadequately educated workforce (14.9) | Corruption (13.6) |
| **Zimbabwe** | Access to financing (22.9) | Political instability (19.3) |

**Note: This table includes the same countries that feature in Table 2 for which data are available.**
**Source: WEF (2012).**

However, whilst useful, approaches to measuring business climates such as these are not without their problems. According to Leo et al. (2012: 12), for example, although the Doing Business reports ‘provide a useful assessment of business environment issues, they also omit several factors that impact PSD [private sector development], such as macroeconomic stability, security, quality of infrastructure and corruption’. It is therefore argued that they need to be supplemented by other diagnostic tools. Moreover, a study by the UN Industrial Development Organization (UNIDO) (2008: ix) claims to show that:

> [T]he Doing Business agenda is embedded in a neo-classical framework [...] [that] advocates minimal regulatory government intervention and a very limited role for supporting particular economic actors [...] This is in marked contrast to neo-structuralist positions that emphasize market failure and the need for corrective policies.

Regarding the World Bank’s Enterprise Surveys, Leo et al. (2012) point out two key weaknesses. First, they are expensive, time-consuming and infrequently completed (meaning they are not particularly suitable for identifying country trends over time). And second, they focus almost exclusively on firms in the formal sector and may not, therefore, adequately reflect constraints the broader business environment (ibid.: 12).

# 3 The impacts of conflict on livelihoods, economic activity and growth

War and violence have several effects on livelihoods and economic growth, in complex ways and at various levels. Many of these – but, significantly, not all – are deleterious. This section provides an overview of what emerge from the evidence mapped out above as the main impacts of conflict on livelihoods and growth, identifying five primary focal points: human and physical capital; perceptions, attitudes and social capital at the local level; coping strategies and risk management; markets and the private sector; and aggregate economic activity and GDP.

## 3.1 Human and physical capital

Human capital refers to the 'knowledge, skills, competencies and other attributes embodied in individuals that are relevant to economic activity' (OECD, 1998: 9). Physical capital refers to physical assets, such as livestock, infrastructure and private property, that are relevant to economic activity. Together with labour and technology, these are considered to constitute the key 'factors of production' or 'micro-foundations of growth' (Lucas, 1988; Schultz, 1961). Conflict generates devastating impacts on both, and there is an increasing body of quantitative micro-level evidence – based largely on household-level survey data – to substantiate this.

Impacts on physical capital primarily take the form of infrastructural depletion and asset loss. Evidence tells us, for example, that many households in northern Uganda have lost all of their cattle, their homes and their assets through war (Annan et al., 2006), and Mozambicans are thought to have lost 80% of their cattle stock during civil war (Bruck, 1997). Recent quantitative evidence from DRC also tells us that conflict events produce substantial negative microeconomic consequences for affected households, reducing household asset ownership and worsening living conditions (Pellillo, 2012). Rockmore (2011) builds on this, demonstrating that perceptions of risk, rather than direct exposure to conflict and violence, among households in northern Uganda can also lead to considerable reductions in per capita expenditure.

The political economy of conflict is significant in this regard. Drawing a contrast between the limited, peripheral effects of the civil war in Ethiopia and the widespread asset loss experienced in Liberia, Blattman (2010) explains that damage to physical capital depends largely on the nature and extent of war – considerations of conflict dynamics are thus essential for understanding the effects on physical (and human) capital and the mechanisms through which these occur.

A more substantial body of evidence describes the impacts of conflict on human capital accumulation. At the most fundamental level, conflict depletes human capital by increasing mortality and (physical and mental) disability rates (Blattman, 2010), thereby reducing a country's labour stock. But conflict also affects productivity through its effects on human capital formation. For example, research tells us that child health outcomes, such as height-for-age, are correlated with productivity, wages and long-run growth (Strauss and Thomas, 1998, in Deloach and Lamanna, 2011).

Reviewing the available evidence on educational access and attainment of conflict-affected populations – a popular measurement of human capital – Justino (2011) concludes that a clear negative relationship exists between violent conflict and various educational outcomes (which is particularly concerning given the links between educational attainment and future employment prospects).[6] Micro-level evidence demonstrating this general relationship exists for Bosnia (Swee, 2009), Burundi (Verwimp and Van Bavel, 2011), Cambodia (Merrouche, 2006), Colombia (Rodriguez and Sanchez, 2009), Côte d'Ivoire (Dabalen and Paul, 2012), Eritrea and Ethiopia (Akresh et al., 2011), the Former Yugoslavia (Kahanec and Yuksel, 2010), Germany (Akbulut-Yuksel, 2009), Guatemala (Chamarbagwala

[6] Physical capital and human capital are often closely connected. For example, destruction of school buildings and roads (physical capital loss) may contribute to declines in school enrolment and educational attainment (human capital loss).

and Moran, 2011), Peru (Leon, 2009), Rwanda (Akresh and de Walque, 2008), Tajikistan (Shemyakina, 2006), Timor-Leste (Justino et al., 2011), Uganda (Foltz and Opuku-Agyemang, 2011) and Zimbabwe (Alderman et al., 2006).

Beyond the main (and perhaps unsurprising) finding that conflict generally depletes human and physical capital among affected individuals and households, our understanding of the relationship between violent conflict and human and physical capital is more limited. That said, recent micro-level evidence is helping clarify some important nuances and heterogeneities.

First and foremost, evidence suggests that **conflict can cause significant and long-lasting detrimental effects on human capital formation** (Justino, 2011; see Akresh et al., 2012 for a specific example from Nigeria). This is true even for relatively minor shocks. There is also some evidence to suggest that many households have difficulties recuperating asset losses, indicating long-term negative impacts on physical capital too (Ibáñez and Moya, 2009).

Such findings have serious implications, particularly in relation to post-conflict recovery and reconstruction. When fighting stops, it is not uncommon for countries to go through phases of rapid economic recovery and growth (see Brakman et al., 2004 on Germany; Davis and Weinstein, 2002 on Japan; and Miguel and Roland, 2011 and Vandemoortele and Bird, 2011 on Vietnam). Yet, if war can entrench long-term deleterious impacts on both human and physical capital, then particular geographical spaces and segments of the population are left at a near-permanent disadvantage, despite positive economic growth rates at the aggregate level. However, it must be noted that not all micro-level evidence supports this finding. Bellows and Miguel (2009), for example, exploit data from various household surveys and find no meaningful negative effects of the Sierra Leone civil war on 2004 school enrolment levels, five years after the signing of the Lomé Peace Accord. They also find no evidence of lasting impacts on household socioeconomic status measures, including income earning activities and asset ownership. Similarly, Miguel and Roland (2011) investigate the economic consequences of US bombing in Vietnam – 'the most intense bombing campaign in military history' (ibid.: 1) – and find no statistically significant impact on poverty rates, consumption levels, infrastructure, literacy or population density through to 2002. Such evidence suggests that, under certain conditions, rapid economic recovery of badly affected sub-national areas is possible.

Second, it is increasingly clear that **certain segments of the population suffer worse and longer-lasting effects than others.** Evidence on human capital (dis)accumulation, particularly in relation to educational outcomes, suggests a number of groups are particularly vulnerable, 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; Kahanec and Yuksel 2010). Violent conflict is also thought to affect secondary schooling to a greater extent than primary schooling (Justino, 2011), suggesting older children are disproportionately affected.

Taking forced migration as an illustrative example, a recent study by Fiala (2011) claims to offer 'the first causal evidence of the effect of displacement' (ibid.: 1). Using panel data for displaced and non-displaced households from northern Uganda, the author found that displaced households suffered an initial decrease in consumption of between 28% and 35%, as well as a decline in the value of assets compared with non-displaced households. Further analysis reveals that, two years after households returned 'home', losses associated with displacement had reduced but not altogether eliminated: displaced households still exhibited 20% lower consumption than non-displaced households, an effect most pronounced among those classed in the bottom quartile of pre-displacement asset ownership. In addition, Ibáñez and Moya (2009) draw on quantitative and qualitative data to show that displaced households suffer substantial physical losses – the extent of which is determined largely by conflict dynamics, such as the strategies of armed groups (e.g. asset seizure) – and that only 25% of households are able to recover assets.

Third, **it is not just about civil war** – numerous variants of conflict and violence retain the potential to exert significant negative impacts on human and physical capital. Dupas and Robinson (2010), for example, investigate the economic and health impacts of the 2007 Kenyan presidential election crisis and conclude that social unrest is an important channel through which political instability can affect long-term development outcomes. Foltz and Opoku-Agyemang (2011) similarly find that low-intensity conflict in Uganda makes children less likely to complete each grade of schooling.

## 3.2 Perceptions, attitudes and social capital at the local level

Most micro-level evidence on the relationship between conflict and human and physical capital (see Section 3.1) paints a bleak picture, not only for the wellbeing of individuals and households, but also for economic growth: significant and persistent declines in the factors of production translate into reductions in economic activity.

However, breakdown and loss are only part of the picture. While the deleterious economic impacts conflict so frequently generates are undeniable, **people have been shown to respond in ways that actually contribute to economic growth, both during and after war.** As Korf (2004: 275) argues, 'war can be both a threat and an opportunity, often at the same time'.

Evidence on individuals' behavioural and attitudinal responses to conflict demonstrates war's capacity to (violently) reorganise people's economic relationships. This body of evidence is admittedly limited – hardly surprising, given the lack of serious empirical engagement with the issue, at least until fairly recently – although advances in experimental field methodology and analysis have, over the past decade or so, provoked new interest in the study of behavioural and attitudinal responses to conflict.

Although mixed, **the evidence speaks far more to war's transformative potential** (see Cramer, 2006; Tilly, 1992) than does the literature on human capital (dis)accumulation. One set of studies explores the impact of conflict on individual and household social capital (e.g. altruism, cooperation, political engagement). Bellows and Miguel (2009) use nationally representative household data from Sierra Leone to demonstrate that, although no worse-off in terms of socioeconomic outcomes, individuals whose households directly experienced more intense civil war violence are robustly more likely to attend community meetings, join local political and community groups and vote. Victims' households are also more likely to participate in school committees and road maintenance. In other words, conflict-affected individuals and households make greater public goods contributions and are more politically mobilised, at least within the Sierra Leonean context. Blattman's (2009) research in northern Uganda partially supports these findings: survey data suggest abduction leads to substantial increases in voting and community leadership.

Voors et al. (2012) use experimental data from 300 households in 35 randomly selected communities in Burundi to examine the causal effect of exposure to violence on behaviour. Their results, validated through robustness testing, suggest that individuals who have either experienced violence or who live in communities that have been violently attacked display more altruistic behaviour, are more risk seeking and act less patiently. They also find that temporary shocks (e.g. acute episodes of violent conflict) can have long-term consequences on behaviour and preferences.

Conflict-affected individuals in Nepal have also been found to display more altruistic behaviour. Gilligan et al. (2011) use behavioural games and survey data to show that members of communities with greater exposure to violence exhibit significantly higher levels of social capital as proxied by willingness to invest in trust-based transactions and contribute to a collective good. In attempting to identify a causal mechanism for this relationship, the authors find strong evidence for a 'community-level effect' whereby conflict forces communities to adopt new norms that foster 'pro-social behaviour' (an 'institutional mechanism').

Similarly, Bauer et al. (2011) examine data derived from 'dictator game experiments' with children in Georgia six months after the conflict with Russia over South Ossetia. Their results indicate that children who were exposed to warfare are more likely to display egalitarian motives and choose allocations that remove inequalities. The authors also suggest that the 'normative content of social norms' can shift quite quickly in response to conflict.

However, the evidence is not entirely conclusive. Muller and Vothknecht (2011), for example, find an overall decline in social capital and citizen contributions in Indonesian districts affected by group violence. Importantly, they also caution against generalising the impacts of violence on community activities. Disaggregating data and analysis by activity type – for example, the authors examine governance, social service, infrastructure development and risk sharing – reveals important differences: while wealthier households are more likely to engage in cooperative and infrastructure improvement activities, the poorest households are more likely to be involved in social service activities. Moreover, individual engagement is found to be dependent on the involvement of other members from the same ethnic group, hinting at the role social networks play in determining citizen contributions.

Finally, Burchardi and Hassan (2011) explore the relationship between social ties at the individual level and aggregate economic outcomes. Using the fall of the Berlin Wall in 1989 as a natural experiment, the authors show that households in West Germany who had social ties to households in East Germany in 1989 experienced a persistent rise in personal incomes after the collapse of the Wall. Their study illustrates how war and coercion shape social relations, sometimes entrenching strong social ties between individuals, which in turn affect economic development and prospects for growth (in this case decades later).

Variations in livelihood responses are as much about **subjective perceptions of violence and conflict** as they are about people's material access to assets. Badiuzzaman et al. (2011), for example, use subjective perceptions of violent experiences among households in the Chittagong Hill Tracts of Bangladesh to explain household economic decision making. They find that, while subjective perceptions of violence lower consumption expenditure (i.e. households perceiving high levels of violence spend 10% less than households who perceive low levels of violence), high perceptions of violence can also raise land use intensity and lead to more risky crop cultivation as households become eager to recoup asset losses. The trauma of violence draws indigenous households away from traditional slash and burn (*jum*) cultivation towards the use of the plough. This can also mean they are forced to relocate on plain lands, and are compelled to economise on both labour and land as *jum* cultivation is more intensive in both factors of production. Binns and Maconachie (2005) find that, in post-conflict Sierra Leone, the threat of a return to insecurity shapes households' willingness to spread risk across the mining and farming sectors.

Changes in perceptions, attitudes and social capital brought about by exposure to conflict can also refer to changing relations within households. A few studies attempt to assess whether shifts in women's labour market engagement and positioning as a result of displacement (usually to urban centres) translate into domestic social empowerment and increased 'bargaining power'. The findings are not promising. Calderón et al. (2011) examine the consequences of displacement on female labour participation using Demographic and Health Survey (DHS) and National Household Survey data and a rural non-displaced control group. They find that, although women become more actively involved in labour markets, making greater contributions to household earnings (because of working longer hours, not earning a higher wage), their position and condition within the household does not improve. In fact, a rise in earnings is accompanied by an increase in domestic violence against both women and children, possibly as a result of 'men's need to vent stress and control women, as well as the victimisation process men underwent just prior to displacement' (ibid.: 23). Similarly, qualitative research by Adam (2008) in Ambon, Indonesia, reveals that, while women were better able to adapt to and participate in the urban informal labour market, shifts in income generation strategies did not lead to a qualitative change in intra-household gender relations. Moreover, once violence subsided, most women resumed the 'inside oriented role they had before the violence', whereas men 'returned to their traditional function as the wage-earner of the household' (ibid.: 6).

## 3.3 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. That said, there is a danger when writing about conflict responses to either romanticise agency or ignore it completely (Cornwall et al., 2011). Arguably, the former is often an intellectual reaction to the latter – for many years, war was understood to undermine agency to the point that people were seen to be completely dependent on outside help and intervention (the dominant humanitarian discourse on refugees used to be typical of this kind of thinking (Malkki, 1996; Refslund, 2001)).

But a risk also lies in the pendulum swinging too far the other way. A theoretical grasp of structure and agency, and the continual interactions and negotiations between the two (see Giddens, 1984 on 'structuration'), helps us realise that human action is always structured by norms, systems and institutions, but that what humans do simultaneously and constantly shapes these structures. Thus, both structure and agency matter; neither can be reduced to the other (Lewis, 2002), and we cannot fully understand the behaviour of individuals without first situating them in relation to the structural constraints of the broader political economy (Adam, 2008; Collinson, 2003). What the evidence within the literature on people's responses to conflict clearly demonstrates is that **individuals, households and communities do respond to conflict, often in strategic and innovative ways, but their ability to do so is mediated by structural conditions and shaped by violence and threat.** This review recognises the role of both structure and agency in determining people's livelihood strategies during and after conflict.[7]

Thus, just as there is a danger in romanticising agency, so too is it is perilous to view the consequences and implications of response strategies in an overly positive light. There are violent and coercive elements of people's responses to conflict and their responses and actions occur along a continuum of vulnerability. Conflict is not just about the threat of being killed, but also about a range of risks and disruptions, and the management of one may increase exposure to another, or indeed several others. In other words, responding to conflict (e.g. fleeing a village) may diminish a particular kind of risk (e.g. the violent actions of an aggressor), but may in turn expose the household to other kinds of risk (e.g. economic and social marginalisation at the destination). Furthermore, conflict usually forms part of a broader vulnerability complex, meaning that individuals acting within that environment have to deal with a number of risks in parallel, ranging from environmental risks (droughts, floods, climate change, etc.) to economic stagnation and decline (hyperinflation, damagingly protectionist economic policies, etc.).

What makes livelihood strategies in conflict-affected situations distinct is that they are not only mediated by structures that create poverty and vulnerability, but also underpinned by high levels of violence and threat. Livelihood strategies in stable environments are also shaped by types of violence that include crime and domestic violence, but violence plays a particularly formative role in defining responses under conditions of conflict (Galtung, 1969; World Bank, 2011).

At the most explicit level, livelihoods are shaped by the direct impacts of violence on human capital. The brutal amputations administered by the Lord's Resistance Army (LRA) in northern Uganda and the Revolutionary United Front (RUF) in Sierra Leone are clear examples of conflict's debilitating consequences on livelihoods, the ultra-violent actions of rebels (and sometimes government soldiers) reducing victims' ability to cultivate land. Similarly, the laying of landmines by armed groups creates physical landscapes of violence that often persist long after peace agreements have been signed and fighters demobilised (Oppong and Kalipeni, 2005).

Beyond its most overtly physical of impacts, violence influences the kinds of assets households can draw on (Lautze and Raven-Roberts, 2006), as well as the kinds of risk strategies and livelihood activities employed. For example, violence and insecurity in place of origin have been identified as key drivers of displacement, whereas the presence of 'peaceable' forces in place of origin, such as the police, acts as a deterrent to emigration (Czaika and Kis-Katos, 2009; Ibáñez and Velez, 2008). What is more, activities commonly perceived to be voluntary and driven by choice are in fact often underwritten by coercion and the threat of violence. The phenomenon of 'coerced contributions' highlights this perfectly, as members of overseas diasporas are forced into sending money back 'home', either by informal networks of activists located within the diaspora, as was the case with Sri Lankan Tamils living abroad (Orjuela, 2008), or through state-imposed taxation regimes, as experienced by the Eritrean diaspora (Redeker Hepner, 2008).

The fact that violence shapes livelihood strategies does not necessarily mean those strategies inevitably result in loss and trauma (although this often is the case). Some research suggests that violence is sometimes associated with a number of 'positive' outcomes (see above), including increased political activation (Bellows and Miguel, 2009; Blattman, 2009), and greater social cohesion, either through individual behavioural changes (Voors et al., 2012) or through institutional changes (Gilligan et al., 2011).

[7] Researchers have used structure and agency theories to explore livelihoods strategies in various 'non-fragile' situations. See, for example, Carr (2008), Kothari (2002) and Roy Chowdhury and Turner (2006).

The literature on individual and household coping is dominated by qualitative case study evidence, which effectively illustrates the importance of context and complexity and describes a very broad range of livelihood strategies employed in the face of conflict. Making sense of the diversity of coping behaviour is a challenge in itself, and something that has been attempted on a number of occasions (e.g. Bonwick, 2006; Jaspars and O'Callaghan, 2010a; 2010b; Korf, 2003). Ultimately, we found it useful to differentiate between a set of strategies through which households manage risk: risk minimising, risk avoidance and risk spreading (Section 3.4 also contains evidence of households' approaches to dealing with risk in the form of engaging more directly with markets). We also draw a distinction between *strategy* and *activity*: strategy refers to a household's overall approach to dealing with risk (e.g. risk minimising), whereas activity refers to a particular behavioural action that takes place within that strategy (e.g. growing less labour-intensive crops).

### 3.3.1 Risk minimising

There are a number of different ways in which **households minimise risk in conflict situations by remaining *in situ* but making adjustments to their livelihood activities**. Farmers in Darfur, Sri Lanka and the Occupied Palestinian Territories (OPT) switch to cultivating only small plots of land or growing less labour-intensive crops in order to avoid venturing into open fields or being away from the homestead for extended periods of time (Jaspars and O'Callaghan, 2010a). Similarly, farmers in the West Bank switch to low-intensity crops (i.e. from vegetables and peaches to grapes and olives) in order to limit travelling to the fields. The knock-on effects of such decisions can be important, particularly for food security. In Sri Lanka, for instance, insecurity meant that people could not access their paddy land to grow rice and, whereas farmers had previously produced a surplus, they began finding it difficult to meet their subsistence needs. Even despite humanitarian aid distributions, some internally displaced persons (IDPs) continued to suffer from malnutrition in the absence of access to all their land (Jaspars and O'Callaghan, 2010a).

Bundervoet (2010) analyses 1998 household survey data from Burundi and finds that, compared with more peaceful provinces, households in conflict-affected provinces with savings did not use them to invest in higher-risk, higher-value crops. Rather, they assumed a considerable degree of risk in their assets and stuck to low-risk, low-input and low-value crops.

Attempting to minimise risk *in situ* can be the lesser of two evils. In the OPT, some residents of the West Bank have chosen to stay on their land despite experiencing serious violence, and in parts of south Darfur there were concerns that the provision of assistance to IDPs could place them at greater risk insofar as it could influence the willingness of people to move (UN, 2004, in Jaspars and O'Callaghan, 2010a).

**Some individuals join insurgencies as a risk-minimising strategy**. For example, Seddon and Hussein (2002) show how many young people in Nepal opted to join the Maoists rather than flee, a decision which may have been connected to them becoming better able to provide for their families by joining. Such actions, while clearly underpinned by coercion, contribute to the size and composition of insurgencies. Similarly, flight may reduce the rebel recruitment pool in one area and contribute to potentially violent tensions with the host population in another (Duncan, 2005). Migration overseas adds a transnational dimension to war, particularly when diaspora communities, such as Eritreans and Sri Lankan Tamils (Bernal, 2004; Radtke, 2005), are politically and economically engaged in domestic affairs (again, their engagement may not be entirely by choice).

### 3.3.2 Risk avoidance

The second major strategy is about avoiding conflict (Jaspars and O'Callaghan, 2010a). **The main action that households in conflict-affected situations take to avoid conflict is (forced) migration.** Households might be directly forced to move to escape violence, or find that livelihoods opportunities and access to assets become so restricted that they have no choice but to seek opportunities elsewhere. Jacobsen (2002) argues that displaced people depend on three types of resources or assets, and that their access to these defines the livelihood strategies they follow:

1. Arable land, local resources and assets, for the purposes of rural livelihoods such as agriculture and/or pastoralism.

2 Transnational resources, including capital (cash) and information, usually transferred through networks, and needed to secure access to housing, employment and other needs.
3 Resources from international assistance that can provide basic needs as well as opportunities for livelihoods such as direct employment, income-generating activities or microcredit.

Beyond these tangible, physical assets, successful risk avoidance also depends on the capacity of households to adapt to new circumstances. In Sri Lanka, families invest their wealth in commodities that can be easily carried around in case of displacement (Jaspars and O'Callaghan, 2010a). Evidence from IDPs in Lobonok Camp in Juba shows how livelihood strategies differ before and after conflict. Whereas pre-war livelihoods involved farming, hunter gathering during the off-season and the sale of any surplus in markets, after displacement households survived by collecting firewood, charcoal, dry grass and other building materials (Abdelnour et al., 2008). In Al Fasher in Darfur, Abdelnour et al. (2008) found that 60% of IDPs had practised *goze* (rainy season agriculture in sandy soil) and *wadi* (irrigated agriculture), growing a variety of vegetables and fruits, before being displaced, and that 20% of IDPs had previously engaged in animal husbandry. Following relocation to the camp, the lack of land and the transplantation from a rural to an urban setting resulted in dramatic changes to their livelihoods and perceptions (feeling of injustice, loss, trauma and marginalisation).

During an economic blockade in Hazarajat, Afghanistan, in 1997/98, households reduced both their livestock holdings and, by extension, their dairying and wool-based handicraft production activity, as well as their investment in and consumption of non-food items, but increased their labour migration in order to gain access to 'traditional' sources of income (Pain, 2002). In the OPT, Bedouin communities settled in urban spaces as a consequence of depleted grazing land and limited access to water sources, markets and sources of employment (Jaspars and O'Callaghan, 2010a). Seddon and Hussein (2002) describe similar responses in Nepal, where, in order to flee the Maoist insurgency, people migrated to cities. They also note that, in the context of protracted conflict, migration can result in long-term transformations in livelihoods.

In Angola, a study by FEG notes permanent changes in livelihoods: the temporary peace initiated at the end of the 1994 did not result in the movement of people back to their rural homesteads, despite the establishment of rehabilitation projects by aid agencies: 'Most households were reluctant to move, as their immediate survival depended on access to urban areas' (FEG, n.d.: 1). HEA methods showed that, while peri-urban households were dependent on their own production of food for more than half of their income/consumption, they were also heavily reliant on charcoal sales and food aid, both of which tied them to urban areas. Qualitative research with urban IDPs in Kampala, Uganda, reveals a similar pattern: many displaced households became in effect tied to the city through material improvements in access to education and health care, even though the situation in the north had stabilised and respondents expressed a desire to return (Mallett, 2010).

Where displaced households end up is critical. Jacobsen (2002) notes that a number of studies have sought to compare the economic activities of refugees who are self-settled with those living in camps and settlements (Bakewell, 2000; Hansen, 2001; Kibreab, 2001). **As a strategy, displacement does not fully reduce risk and can even create further vulnerability and conflict.** The Famine Early Warning System (FEWS) (2005) shows how, in Somalia, pastoralist populations have turned to fishing as a risk avoidance strategy, but with only partial success, given the intrinsic risks associated with fishing (because of piracy (and responses to it) in coastal waters around the Horn of Africa). Young et al. (2002) note that people displaced from their homes in central Burundi would return to try to retrieve root crops from their homesteads, which meant travelling to insecure areas and risking attack. Similarly, refugee women would travel from camps in northern Uganda to insecure areas where they had plots of land to cultivate crops or where they could collect wild foods (Payne, 1998). In the Solomon Islands, many second generation or long-term Malaitan migrants living in the capital, Honiara, fled back to the island of Malaita during outbreaks of violence in the period known as the 'tensions' between 1998 and 2003. On Malaita, they were unable to access land and so, in the years following the cessation of violence, many moved back to Honiara to start again (Maebuta and Maebuta, 2009; Slater, 2011). Jacobsen (2002) describes how, in the Chiapas region of Mexico, refugee coping activity was obstructed by both host communities, which were reluctant to allow refugees to use resources, and the Mexican government, which restricted their freedom of movement and settlement. The result was further tension and conflict.

There are, however, some examples of host communities welcoming refugees who help increase the agricultural productivity of land resources (Bakewell, 2000). A number of studies investigate the economic welfare effects of forced migrants on host communities. From Tanzania, both Alix-Garcia and Saah (2010) and Maystadt and Verwimp (2009) report positive outcomes, albeit with important distributional differences. The latter note that, although non-agricultural workers and self-employed farmers in the host community are in a better position to benefit from refugee inflows, agricultural workers are likely to suffer the most owing to an increase in labour market competition and rising prices of various goods. Alix-Garcia and Saah's findings suggest that refugee camps can exert positive wealth effects on nearby rural households but negative wealth effects on households in urban areas.

Risk avoidance can be a significant driver of urbanisation in some contexts. A range of studies reviewed for this review document processes of urban displacement as a result of conflict in Afghanistan (Beall and Schutte, 2006), Colombia (Aysa-Lastra, 2011; Bozzoli et al., 2011b; Calderón and Ibáñez, 2009), Kenya (Metcalfe and Pavanello, 2011; Pavanello et al., 2010), Liberia (NRC, 2011), Nepal (Seddon and Hussein 2002), OPT (Jaspars and O'Callaghan 2010), Senegal (Evans, 2007), Sudan (Pantuliano et al., 2011) and Uganda (Parker, 2002). While sometimes seen as advantaged over those in camps, the experiences of **forced migrants living in urban areas** reveal numerous challenges and risks. These can include:

- **Lack of access to basic services.** Beall and Schutte (2006) show how a lack of access to basic water in urban areas in Afghanistan induces the adoption of health-threatening coping responses, such as relying on polluted surface sources.
- **Exposure to new forms and variants of violence**. Pantuliano et al. (2011: 11) find that, 'In Nyala [Sudan], a pervading sense of fear linked to conflict-related violence and generalised crime discourages residents of all strata from leaving their homes at night'.
- **Economic, political and social discrimination.** Research by Parker (2002) and the Refugee Law Project (2008) shows that urban refugees and IDPs in Uganda face routine marginalisation and discrimination, both by host populations and by the authorities. Pavanello et al.'s (2010) research on refugees in Nairobi supports this.
- **Welfare losses.** Investigating forced migration in Colombia, Ibáñez and Velez (2008) find that the welfare losses caused by displacement to cities are 37% of the 'net present value of rural lifetime aggregate consumption' (Ibáñez and Velez, 2008: 660), and for some households this increases to as much as 80%.
- **Long-term situations of uncertainty and feelings of 'in-between-ness'**. IDPs in cities in Uganda are faced with protracted displacements and 'stalled' return processes, as official efforts to assist return and reintegration have not been forthcoming, potentially as a result of camp-centric institutional thinking (Refstie et al., 2010).
- Forced migrant influxes can, under certain conditions, lead to **environmental degradation and natural resource depletion** (Jacobsen, 1997; Pantuliano, 2007).

A number of these risks are linked to the 'unplanned' nature of urban displacement, which leads to rapid population growth in some areas and weak policy responses from governments (Beall and Schutte 2006; Pantuliano et al., 2011). Given recent estimates that suggest more than half of all forced migrants globally end up in urban areas (Davies and Jacobsen, 2010; UNHCR, 2009; Women's Refugee Commission, 2010), the displacement of forced migrants to towns and cities is increasingly being recognised as a key area of concern for humanitarian response and development outcomes (Tibaijuka, 2010).

Decisions to curtail movement – to not migrate – can similarly result in exposure to risks beyond direct violence and attacks. As mentioned above, in Sri Lanka, violence avoidance strategies often meant people stayed away from their paddy fields, meaning farmers subsequently found it difficult to meet subsistence needs (Jaspars and O'Callaghan, 2010a). Moreover, the decision by some to reduce their own mobility can lead to increased risk exposure for others. In Juba, Sudan, men's decisions not to travel to collect firewood – a previously important livelihood activity, but one that came to produce fatal consequences – meant households became more dependent on the income generated by women, whose livelihood activities continued to expose them to physical abuse and sexual violence (Abdelnour et al., 2008).

### 3.3.3 Risk spreading

**The main way households spread risk is by diversifying income and consumption sources.** Options for doing this *in situ* are limited, particularly in conflict-affected situations, which are characterised by a contraction in livelihood options. Households that may have initially specialised in one particular activity are sometimes driven to diversify across a range of activities, although it is frequently the case that each one is less remunerative. More often, households identify new ways to make an income. In Sri Lanka, for example, returnee and resettled populations who had scant access to land turned to wage labour and petty trade. In extreme cases, people took on loans, sold their jewellery and/or begged for food (Jaspars and O'Callaghan, 2010a). In Sri Lanka and Darfur, IDPs turned to small-scale income-generating activities such as brick making, collecting wood, domestic work, petty trade and wage labour. In the West Bank, the favoured strategy was casual labour within the West Bank and/or illegal work in Israel (Jaspars and O'Callaghan, 2010a).

> Jaspars and O'Callaghan (2010b: 172) also note that, in both Darfur and Sri Lanka, splitting families in order to pursue different activities is an important way of accessing a broader range of livelihood options: 'Families are spread over a number of different locations, with some farming in their home area or renting land elsewhere, and members spread across two or three camps and others in town to seek work'.

Similarly, in Zimbabwe, kin relationships and **localised networks of sharing and support** depend on what Chimhowu (2002: 570) calls 'livelihood cells', which act as an **informal system of mutual risk mitigation:** by 'borrowing and exchange of assets [including reciprocal labour pools], households were able to keep their mutual support cells active'. Social networks are important for spreading risks in other ways too. Where accessing markets is fraught with danger, there are examples of people pooling risks, for example by travelling in groups to markets (see Haver, 2009; Stites et al., 2006, Thoulouzan et al., 2006). Elsewhere, Walraet (2011) illustrates how the ability of displaced households in South Sudan to secure resources and create wealth is determined significantly by the interactions between social networks and the political economy. While social relations for the majority represent 'networks of survival' – informal safety nets – successful groups have been able to capitalise on relationships with political and military elites, forming in the process 'networks of accumulation'. Walraet's contribution is to call into question the 'broad cultural logics' that are often mobilised to account for social action and agency, and to make a compelling case for the roles power and access to the state play.

Although strong social networks may prove important and beneficial for included members, group cohesion is often generated, almost by definition, through the exclusion of others. Furthermore, the presence of multiple groups in a particular area may give rise to inter-group tensions and conflicts, for example in relation to access to natural resources. As Jacobsen (2002) argues, although clan-based affiliations are critical to supporting households' livelihoods in camps in northern Kenya, they also bring risks as different groups attempt to protect or access common resources (see Box 2).

**Box 2: The firewood business in Dadaab, north-eastern Kenya**

In both Kakuma and Dadaab camps, wood fuel or firewood is supplied to refugees in the amount of 10 kg per person per month, which is never enough. Many families therefore supplement the official supply by purchasing extra firewood or charcoal from local people. Some refugees have taken up the role of middlemen, either to buy from locals or, in the case of Dadaab, to harvest firewood themselves. Firewood has become a Somali clan-controlled enterprise, and clan rivalry has made firewood supply a risky business. The refugees have refused suppliers from outside the camp and all wood is provided through supply tenders based on clan affiliation. The more powerful the clan, the larger the wood fuel zone they control. Donkey cart owners pay taxes to the clan gangs in order to be allowed to harvest the firewood. Nobody else is allowed to go into the bush. The gangs turn into 'bandits' and terrorise the refugees in the camps. If found in the forest, women are raped if they do not belong to the rapist's clan. This is done to discourage them from interfering in their firewood business. If men are found they are shot dead, so they opt to send their women and risk rape as the lesser evil, but still any raped woman bears a permanent stigma in society. According to the bandits, the woman should have waited to buy or be supplied by the UN High Commissioner for Refugees (UNHCR) so the bandits gain both ways. The deep-rooted clan hatred several Somali clans hold for one another is manifest in the fact that the rapists always ask for the victim's clan before the assault.

Source: Jacobsen (2002).

In addition to the separate strategies outlined above, what we often find in practice is that **many households seek to take actions that simultaneously avoid, minimise and spread risk.** Analysis of the pastoralist zone of central and southern Karamoja, Uganda, shows how households employ highly diversified strategies in the face of conflict (FEG, 2010a). Livestock ownership is the main determinant of wealth in this livelihood zone, but holdings have generally diminished over recent years because of inter-ethnic conflicts (which have resulted in raiding and limited access to grazing lands), livestock diseases and recurrent drought. In response, households employ a range of strategies, some of which suggest a retreat from markets and trade, some of which depend on access to markets: households increasingly rely on crops and farming, switch expenditure to all but essential items and non-preferred foods and gather wild foods. At the same time, they increase livestock sales (often on poor terms), increase their bush product collection and sale or migrate to find labour opportunities. Risk diversification can continue to be important in post-conflict settings. For example, the rebel insurgency in Sierra Leone in the 1990s displaced more than 2 million people (Peeters et al., 2009). Maconachie et al. (2007) find that in the post-conflict era, seasonal labour mobility, whereby men move between farming and diamond mining, is the key ingredient in sustaining livelihood portfolios and is an essential precondition for sustainable post-conflict return.

The **dynamics of coping and response contain elements of proactive as well as reactive behaviour.** It is sometimes tempting to think of conflict as an isolated shock, neatly delineated from peaceful pre- and post-war periods. But this is rarely the case. Households may experience situations of chronic instability and violence before the 'onset' of war and may accordingly anticipate appropriate responses. Richmond's (1993) work on the sociology of refugee movements offers key theoretical insights into the nature of displacement, illustrating that the decision to flee and the choice of destination are often unlikely to be purely reactive and involuntary. All movements, whether induced through violence or not, are shaped by a system comprising predisposing factors (reasons stimulating the initial decision to migrate), structural constraints (reasons beyond control preventing migration), precipitating events (e.g. outbreak of intense violent conflict), enabling circumstances (e.g. border relaxation) and system feedback (consequences of migration that may either constrain or facilitate future movement).

The evidence on coping strategies and risk management (and, to a lesser extent, on perceptions, attitudes and social capital) raises questions around **changes to livelihoods over time.** We have presented above substantial evidence that livelihoods do not remain static, but rather adapt to context. An issue of particular interest is whether livelihood strategies post-conflict revert to 'normal', that is, to what they were before the onset of war. Evidence on this is mixed and it is difficult to draw out generalisable conclusions. While there is some indication that peacetime and wartime livelihood patterns are different, with households resettling back into pre-conflict social and economic patterns on the re-establishment of stability (see Adam 2008), there is a risk of viewing war and peace as two distinct, disconnected phases. This is absolutely not the case.

War is about continuity and change, and transformations brought about by the experience of conflict and violence often shape the post-conflict social, political and economic landscape, sometimes far into the future. For example, O'Laughlin (2002: 511) explains how rural livelihoods in Mozambique today are the outcome of a 'historical process of proletarianisation grounded in violent and repressive regimes of forced labour during the colonial period'. Experimental evidence from Burundi demonstrates that temporary shocks, such as acute episodes of violent conflict, can have long-term impacts on people's behaviour and preferences (Voors et al., 2012), and research by the Women's Refugee Commission (2008) in northern Uganda suggests that, having grown up in IDP camps, young people may be more familiar with employment opportunities in non-agriculture sectors. Similarly, a sociological survey conducted in eastern DRC in 2008 found that 85% of the 348 youth interviewed did not want to maintain agriculture as a primary occupation, but instead envisaged a future in the city (Raeymaekers, 2011). This is a caution against assuming that 'things normalise' once war has ended: farmers may no longer be farmers, and their interests, activities and requirements may have shifted quite dramatically.

In a similar fashion, the evidence presented above also raises questions around **changes to livelihoods across geography** (although it fails to provide much in the way of concrete answers). For example, it could be argued that the boundaries between rural and urban spaces are blurring as a result of conflict,[8] with an urbanisation of displacement and an increase in urban agriculture in conflict-affected situations (this has been observed in Cameroon (Page, 2002), DRC (Tambwe, 2006), Ethiopia (Ashebir et al., 2007), Liberia (Kortu, 2009), Senegal (Linares, 1996), Sierra Leone (Kanu et al., 2009), Sudan (Schumacher et al., 2009) and Uganda (Maxwell, 1995)). On the other hand, one might argue that conflict is consolidating an urban–rural divide: in Rwanda, Justino and Verwimp (2006) report a slight increase in participation of male household heads in cultivation, and a withdrawal from off-farm activities; Deininger (2003) finds that war-affected households are less likely to start non-farm activities; and Justino (2007) argues that destroyed infrastructure may drive households into subsistence production.

Ultimately, changes to livelihoods are highly contextual, and it is probably inadvisable to make generalisations that are too sweeping. But perhaps there is a broader point here – that rural does not intrinsically equate to agricultural. In light of this, whether we are able to identify a strong trend towards livelihood diversification in rural areas is immaterial; this is actually more about moving beyond simplistic assumptions about the nature of rural livelihoods, a problem Pain (2002: 10) has observed in Afghanistan: 'The treatment of [...] rural as agricultural is what has informed general practice in terms of interventions in rural Afghanistan'.

## 3.4 Markets and the private sector

While it is frequently assumed that markets are undermined by conflict and that many households retreat from markets to focus instead on subsistence production in order to minimise risk, **for other households, engaging more with the market is a central livelihood strategy in conflict situations.**

Indeed, when confronted with difficult situations and acute crises, subsistence farming is not the only livelihood strategy (Collinson, 2003; Raeymakers, 2006). While in Nepal a significant reduction in travel and the transport of goods was noted as a response to insecurity (Seddon and Hussein, 2002), in other places people do the opposite. For example, in Hebron, people broke curfews in order to get to work: farmers defied the official opening of the 'Barrier'[9] to tend to their fields, as others ventured into Israel in search of illegal jobs or traded in goods from Jordan without declaring them at customs (O'Callaghan et al., 2009). In Somalia, too, studies have shown the importance of accessing markets in order to

[8] It is still important to note that that such a blurring is part of a broader, historical trend (see, e.g., Geschiere and Gugler, 1998).

[9] Physical restriction on the movement of Palestinians was enforced by the so-called 'Barrier', a 10 m-high wall and fence designed to protect Israeli civilians from Palestinian militant attacks (O'Callaghan et al., 2009).

maintain livelihoods. In 1991, herding and agro-pastoral groups relied on the market for about 40% of their food needs in the wet season and 70% during the dry season (Alinovi et al., 2007).

Peasants in Beni-Lubero, DRC, invest serious efforts in reaching markets with their seasonal produce, and use the subsequent profits to procure basic necessities, such as medicine or education. In the absence of good infrastructure and with the ever-present threat of violence, they have developed different strategies to secure their livelihoods. In less accessible areas, small markets have sprung up by the roadside or in the centre of some villages in order to allow peasants returning from their fields to buy basic foodstuffs, such as manioc, flour and salt. Prices are often high and markets are dominated by intermediaries who buy the produce in urban markets; peasants in western Lubero circumvent this problem by setting up small selling points (*boutiques*) in their households to sell to passers-by (Raeymakers, 2006).

In IDP camps, residents often have little choice but to engage with markets and arbitrage opportunities. Jacobsen (2002) describes how, in Kakuma camp in Kenya, many refugees sell their inadequate food rations and buy sugar and salt that they can send across the border into Sudan where they can earn a greater income than would be received for the food assistance itself. Shop owners in the camp sell or exchange food rations and sell them later when the humanitarian pipeline breaks down.

Engaging more with markets or moving into new livelihoods often comes with risks. Tyler (2008) notes that, in Somalia, women turn to collecting rubbish or prostitution, with associated risks (see Box 3).

**Box 3: Livelihood strategies and risks in urban Somalia**

Khadra is four months pregnant. Her husband is chronically ill, making her the sole breadwinner for her family. Like many of the women in displaced persons settlements in Baidoa, a town now crammed with people fleeing the conflict in Mogadishu, Khadra's only source of income has been selling firewood, which she collects by walking tens of kilometres outside Baidoa. Taking her two young daughters with her for the journey, she sells the firewood for 30,000 Somali shillings, or just over $1, on the roadside near her makeshift home, where she has been living for over a year. Not only is collecting and selling firewood not enough to provide for her large family, but also it puts Khadra and her daughters in harm's way. 'I was chased once by several armed men', she explains. 'That time we were able to escape, but other times some of my friends were raped'. She has tried to earn more money by cleaning clothes for wealthier families in Baidoa – some days she was paid, other days not. She has occasionally received some humanitarian aid, in the form of food or plastic sheeting and other household items, but the landowner, to whom her community has to pay rent, would come the next day to take his cut of the assistance, or threaten eviction.

**Source: Tyler (2008).**

### 3.4.1 'Entrepreneurial' behaviour and self-employment

In addition to the contextual case study livelihoods evidence presented above, another set of studies from the quantitative micro-level literature investigates **conflict's effects on individual and household entrepreneurial behaviour** (e.g. propensity to take risks and capitalise on opportunities).[10] Bruck et al. (2010) test the impacts of various types of extreme events on the perceptions of entrepreneurs concerning some 'key entrepreneurial issues' (e.g. fear of failure in starting a business venture, whether individuals expect that good opportunities are likely to emerge in the next six months and the expected level of competition stemming from creating new ventures). Using individual-level data from 43 countries between 2002 and 2005, they find that, once country characteristics are controlled for, violent conflict has no significant effect on the perceptions and expectations of entrepreneurs. They

[10] The distinction between 'entrepreneurialism' and 'self-employment' is unclear, and there is a danger that the former is associated with better working conditions and more positive outcomes. This is not necessarily the case. Both entrepreneurialism and self-employment can refer to many different things and generalisations about both categories must be made with caution or taken with a pinch of salt. This issue is elaborated on below.

conclude that, while extreme events such as violent conflict diminish aggregate growth and per capita income at the country level (see Section 3.5), they do not necessarily reduce, and in some cases may promote, entrepreneurial activity at the micro level.

Focusing on the Chittagong Hill Tracts region of Bangladesh, Badiuzzaman et al. (2011) use quantitative socioeconomic data and qualitative data on subjective perceptions of violence to investigate the effects of low-intensity conflict on household decision making. They find that, while heightened subjective perceptions of violence lower consumption expenditure, they may also induce more risky crop cultivation. Similarly, experiences of displacement and violence in some cases raise the likelihood of households sending children to school. They conclude that certain kinds of conflict may make some people bolder and more risk taking.

Ciarli et al. (2010) use data from the National Risk Vulnerability Assessment in Afghanistan to examine whether conflict affects the likelihood of a household engaging in entrepreneurial activity, proxied by sources of income derived from small business. They find that conflict exerts only a very small negative effect on entrepreneurship.

Deininger (2003) uses community- and household-level data from Uganda between from 1992 and 2000 to show that 'civil strife' (defined as violence against communities rather than individuals) exerts a negative impact on an economy's growth, reduces asset accumulation, diminishes people's propensity to start up new enterprises and makes it more likely that those already been established will go out of business.[11] However, the author still reports that 40% of the households in the sample either started up or expanded on an existing farm enterprise during the period of concern. So, while propensities to do so may decline, households are shown to continue to engage in enterprise throughout civil strife.

Research by Bozzoli et al. (2011b: 2) in Colombia finds that conflict has a 'geographically different impact on self-employment'. Using three types of data – a household survey by the *Familias en Acción* programme, a municipality-level dataset on violence and conflict and a dataset describing the economic situation of municipalities – the authors test the likelihood of self-employment against three conflict variables (homicide rates, displacement rates and the number of attacks by illegal armed groups). They find that, while high homicide and displacement rates at the community of origin reduce self-employment (although the effect of homicide rates is greater for men), high displacement levels at the municipality of destination increase the probability of self-employment.

Other micro-level studies focus more specifically on labour market outcomes. Research by Calderón and Ibáñez (2009) in Colombia suggests that migration flows create large negative impacts on wages and employment opportunities for all workers in the host community, but particularly for lower-skilled ones. Indeed, as a consequence of forced displacement, overall wages fell by 28.4% and informal wages by 60%. Thus, conflict and displacement affect the labour market outcomes not only of those directly affected by violence, but also of host communities through, for example, increased competition for jobs. However, such outcomes are dependent on an individual's relation to labour markets in the first place (Maystadt and Verwimp, 2009), and they will likely differ by sector (see also Section 3.3.2 for examples of evidence where the presence of forced migrants may improve the economic welfare of host communities). Further research in Colombia finds that, while violent conflict increases the supply of 'off-farm' labour, rural labour markets are not able to fully absorb the expansion (Fernandez et al., 2011), suggesting that labour markets in rural parts of the country offer a limited livelihood alternative.

Finally, Demirguc-Kunt et al. (2008) examine the factors affecting entrepreneurship in post-conflict Bosnia and Herzegovina. Using household survey data from 2001 to 2004, they find that wealthier households and those already working in the informal sector are more likely to become entrepreneurs and survive in self-employment. On the other hand, the receipt of remittances decreases the likelihood of becoming an entrepreneur. They also highlight the importance of financing constraints in determining chances of business survival.

[11] Some of these findings are supported by Rockmore (2011), who draws on more recent data from northern Uganda to demonstrate that the risk of violence, rather than direct exposure to violence, has reduced per capita expenditure in the region by approximately 70% and national GDP by 4.6% to 8.2%.

The research outlined above is illuminating and revealing, but greater clarity on what is meant by 'entrepreneurial activity' is required. At the very least, **we need to be cautious about conflict's ability and propensity to drive business and innovation** (although it certainly does so to some extent). Indeed, it appears that, in general, much of the entrepreneurial activity found in conflict-affected environments should be understood as a survival strategy rather than a genuine reflection of entrepreneurial spirit (Ciarli et al., 2010; see also Mondragon-Velez and Pena-Parga, 2008). Similarly, the extent to which self-employment can be considered entrepreneurial activity is unclear. As Bozzoli et al. (2011b) point out; the self-employed comprise a highly heterogeneous group: some may be accurately considered entrepreneurs running profitable businesses, whereas many others adopt self-employment as a survival strategy. These differences are not reflected in most self-employment data.

### 3.4.2 Informal economies and labour markets

**Expansion of informal labour markets appears to be a characteristic of many conflict-affected situations.** Conflict disrupts and redefines livelihood activities, and evidence suggests that trajectories towards informality often follow, particularly when people are displaced to urban areas. For example, Beall and Schutte (2006) explain how informal employment serves as the main livelihood source for the majority of Afghanistan's urban population (indeed, out of households surveyed in Kabul, Herat and Jalalabad, only 6%, 5% and 6%, respectively, had secured regular employment). Through qualitative research in Indonesia, Adam (2008: 7) finds that the 'most important way the IDPs in the camps of THR and WismaAtlit in the conflict-ridden city of Ambon attempted to preserve their income generation strategies was by getting access to informal petty trade' – moreover, women were found to be able to cope more effectively with displacement and insecurity owing to their far better access to the informal sectors of the urban economy. Pantuliano et al. (2011) report that the majority of the urban poor in four Sudanese cities depend on a range of marginal activities in the informal economy, including daily labouring and petty trade. The findings of Pavanello et al.'s (2010) research on refugees in Nairobi, Kenya, of Aysa-Lastra's (2011) research in Bogota, Colombia, and of Iyenda's (2005) research in Kinshasa, DRC, are all consistent with this pattern.

**Trends towards informal employment can also be observed in non-urban contexts.** Recent interviews in both rural and urban parts of northern Uganda reveal that 'youth engage in a spectrum of activities to earn income, few of which can be classified as formal employment' (Women's Refugee Commission, 2008: 5). While engagement in informal labour markets is testament to the proactive choices people affected by conflict make, this also highlights another example of response strategies that often produce negative effects. Working as petty traders or shopkeepers may provide a much-needed means of income during conflict, but there are concerns over the sustainability of informal sector employment and its capacity to reduce poverty in the long term (Adam, 2008; Iyenda, 2005); the ability of informal labour markets to effectively absorb rapid explosions in labour supply, particularly in urban areas (Beall and Schutte, 2006); the negative impact of informal economy expansion as a result of large labour influxes on earnings in that sector (Calderón and Ibáñez, 2009); and the exposure of women and children to hazardous and exploitative work (Beall and Schutte, 2006). Furthermore, there does not appear to be strong evidence that informal economy expansion is especially good for growth: profits tend to be marginal and the potential for informal sector employment to improve livelihoods beyond the short term is limited (Adam, 2008; Iyenda, 2005).

**Engaging in illicit economies presents particular risks, but is 'often central to the survival of many individuals and groups** within conflict-affected societies' (Lautze and Raven-Roberts, 2006: 384). As Jacbosen et al. (2001) describe in relation to displaced persons in Khartoum, engaging in illegal practices such as brewing and prostitution may be the most risky livelihood choice, but it is also the most profitable. The distinction between participation in informal economies and participation in illicit economies is in reality very hazy, particularly when activities take place across nation-state borders (Jaspars and O'Callaghan, 2010a). So too are distinctions between war economies, shadow economies and coping economies (Goodhand, 2003); in Afghanistan, for example, opium is 'simultaneously a conflict good, an "illicit" commodity and a means of survival' (Goodhand, 2003: 11).

Predatory political war economies are often a feature of conflict-affected situations, with armed groups frequently having vested interests in the continuation of the conflict. Livelihoods based on looting, extortion and illegal trading networks may develop, and it has been argued by Collinson (2003: 9) that 'understanding the relationship between war economies, shadow economies and coping and survival economies will help agencies better evaluate the impact of relief in local conflict-affected environments and the implications of their dealings with local commercial actors'.

Illegal economic activities can themselves be major employers and sources of economic growth. In Afghanistan, it was estimated in 2004 that over 3 million people were involved in opium cultivation (Cain, 2004). More recently, the UN Office on Drugs and Crime (UNODC, 2009) estimated the net export value of the opium economy at $2.3 billion, equivalent to nearly 40% of the estimated $6 billion in aid that Afghanistan received in that year (IMF, 2009). Yet, both illegal and informal economic activity – often sizeable in conflict-affected economies – tends not to be captured by conventional GDP estimates or reflected in national accounts. This relates to a broader problem about how to measure economic activity (not just in fragile and conflict-affected situations) and whether aggregate measures actually tell us much about economic processes and patterns within countries (see Section 3.5 and Section 6.1 for more on this). Moreover, while economic activities such as blood diamond trading, engagement in the extractive industries, illegal arms/timber trading, people trafficking and the drugs trade might well be major employers and sources of growth, they can also be what Addison and Bruck (2009) call 'drivers of conflict'.

### 3.4.3 Doing business in war zones

**Conflict throws up a number of obstacles to business start-up and continuation.** These take the form of infrastructural damage, depressed demand for goods and services (i.e. market contraction), a lack of formal state protection of property rights and direct effects of warring parties' actions (e.g. extortion, illicit taxation, loss of stock through theft). As a result of such barriers, civil war has been found to have a negative impact on the existence of firms and employment (Collier and Duponchel, 2010).

Data from the World Bank's Doing Business project and Enterprise surveys – 'two major initiatives [of the last decade] to measure the "investment climate" that private sector firms face in developing countries (Hallward-Driemeier and Pritchett, 2011: 2) – lend empirical support to the argument that conflict is, generally speaking, bad for business. According to the Doing Business indicators, for example, 24 of the 25 worst countries in the world for doing business are classified as fragile or conflict-affected – up from 20 a few years ago (see Peschka, 2011). (See also Sections 2.5.2 and 5.1.2 for discussions of the data on doing business in conflict-affected situations).

Yet, conflict does not stop business in its tracks completely. An array of micro-level, largely qualitative case study evidence suggests that many businesses respond to conflict and violence in innovative ways by employing coping or response strategies of their own, whether through reacting to the emergence of new (although not always licit) markets or by forging alternative systems of governance and regulation.

A major cross-country study commissioned by International Alert (2006) provides several insights into both the nature of business response and adaptation to conflict, as well as the potential of the domestic private sector to contribute to peace building. Through predominantly qualitative research in more than 20 conflict-affected countries, the study makes the fundamental case that '**business is often tightly bound up in conflict dynamics**' (International Alert, 2006: 1). Findings from a selection of the study's country case studies are presented below.

Through in-depth interviews with members from big businesses in Kathmandu, SMEs in Pokhara and micro businesses in Jumla, Dhaka and Subedi (2006) demonstrate how businesses in Nepal were impacted by, and adapted to, the Maoist insurgency. Problems that Nepalese businesses faced included having to pay often high levels of extortion; increases in production costs, sometimes by as much as 20–25%, and declines in production levels of up to 40%; and disincentives to expand or continue operating. In response to the conflict, and in particular to the specific dynamics and nature of the Maoist insurgency, businesses employed a range of coping strategies, including increasing wages and improving work conditions (Maoists tended to target businesses that contravened workers' rights); outsourcing to local people who were better able to deal with the Maoists and were more adaptive to local circumstances; and engaging in dialogue and negotiation with the Maoists.

Research elsewhere by Nenova and Harford (2004) (not part of the International Alert study) illustrates the adaptive capacity and flexibility of the Somali private sector during periods characterised by chronic violence and a lack of effective government. The authors argue that Somali entrepreneurs have employed three methods to compensate for the lack of effective government regulation: first, 'importing governance' from foreign institutions (for example, for airline safety, currency stability and company law); second, using clans and other local networks of trust to help with contract enforcement, payment and transmission of funds; and third, simplifying transactions (ibid.: 1-2).

There is some discussion on the potential **role of businesses in peace-building processes.** Returning to the International Alert study, Dhaka and Subedi (2006: 427) note that, in Nepal, geography and firm size influenced the likelihood of businesses engaging in peace-building activities, such as working to address structural issues or advocating for peace: 'Evidence from Pokhara and Jumla suggests that businesses outside Kathmandu [i.e. smaller businesses] have thought far less about actively addressing issues of conflict and peace, and there is concern that getting involved will be perceived as 'meddling' in political issues'.

Mayer and Salih (2006) show how business associations and alliances in Sri Lanka played a role in the more political dimensions of peace building. The Sri Lanka First campaign was formed by a group of trade associations to raise public and political awareness about the economic costs of war and the social and economic benefits of a 'peace dividend'. Similarly, the Business for Peace Alliance (BPA), a working group of business members from the 17 regional chambers of commerce representing all Sri Lanka's provinces and ethnic business communities, aims to promote understanding and reconciliation through, among other things, arranging business exchange visits between regions and coordinating dialogue. The BPA has also successfully lobbied government to open a bank for SMEs with low interest loans, to open an additional fishing channel on the Jaffna coast and to keep the A9 road, an important supply route, open 24 hours a day.

Jyoti et al. (2006) put forward the private sector as a 'good partner' for peace building for a number of reasons, including that it can mobilise resources; that it is central to economic development; and that it is neutral. On the point of neutrality, there is some evidence that markets can build trust across different groups and reduce the risk of conflict. For example, Lyon et al. (2006) consider the potential for the marketplace to act as a 'mediation space'. Through a case study in southern Nigeria, they show that, although trade can become a 'locus of conflict', 'market interactions and trading relationships often facilitate reconciliation because disputing groups [...] need to work together to secure their individual livelihoods' (ibid.: 433). They continue (ibid.: 436):

> The neutrality of market spaces is implied in the Hausa saying, Kasuwaakaimiki dole, literally "you must take things (goods and money) to the market". That is, going to the market is compulsory for both the buyers and sellers. This recognition of 'common ownership' and shared dependence on the market can discourage conflict over trade.

The empirical foundation for the Lyon et al. (2006) study, however, consists largely of a limited number of interviews with market associations, NGOs and other stakeholders, so we must treat their claims with some caution.

Moreover, it would be inaccurate to portray all markets as spaces of neutrality, all businesses as 'pro-peace' and all trade relationships as conflict deterring. While we know that the private sector is seen as an essential component of the peace-building equation, we also know that the operation of certain markets (both licit and illicit) and the trading of certain goods can actually support 'war-making'. Many businesses capitalise on the opportunities created by conflict through, say, arms procurement (Mayer and Salih, 2006), engaging in illicit cross-border markets and thus feeding into the continuation of conflict. Additionally, Mayer and Salih illustrate how common discriminatory business practices in Sri Lanka reinforced unequal structural dynamics and risked escalating or legitimising conflict.

So, the story is not black and white. Indeed, while some studies have found that high levels of trade result in lower levels of conflict (e.g. Polachek, 1980),[12] in many (if not most) situations trade between private companies plays a more ambivalent role in the political economy of war and peace. Yusuf (2006: 490), for example, describes the seemingly paradoxical role of trade in Somalia: 'While feeding into conflict and containing some elements of coercion, trade also contributes to the mending of broken

[12] Polachek looks at international rather intra-national trade.

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.'

It is also important to remain aware of the motives of businesses to engage in peace building. Research by Mayer and Salih (2006: 565) in Sri Lanka, for example, reveals that 'Businesses would only consider peacebuilding as an option if it were in their self-interest. With more foreign investment, new markets would open up, as would new resources for business utilisation'. Does a focus on profit call into question the viability and sustainability of businesses as 'peace-building partners'?

## 3.5 Aggregate economic activity and GDP

There is **a large body of cross-country econometric evidence on the economic costs of conflict.** This particular literature is, on the whole, fairly resolute that conflict produces significant economic costs and very few (if any) positive economic impacts. As Blattman and Miguel (2010: 38) point out, there have been a number of cross-country growth studies linking measures of political instability to 'large negative effects on national savings, investment, income and growth'. According to Bozzoli et al. (2010a: 168), the 'central finding' regarding conflict's economic impact on growth at the cross-country level is Collier's (1999) estimate that **for each conflict-year, a country loses about 2.2% in economic growth;** in general terms, this finding is supported by a number of other cross-country studies (Cerra and Saxena, 2008; Gupta et al., 2004; Hoeffler and Reynal-Querol, 2003; Stewart et al., 2000).[13]

Country-specific evidence suggests a similar impact on income and growth: in Rwanda, Justino and Verwimp (2006) find that 20% of the population moved into poverty following the genocide; Arunatilake et al. (2000) estimate that the accumulated cost of the Sri Lankan civil war up to 1996 was around $1 billion, or 168.5% of GDP in 1996; and the cost of the war in northern Uganda between 1985 and 2002 has been estimated at $1.33 billion, equivalent to just over 3% of annual GDP (Dorsey and Opeitum, 2002). Deleterious regional consequences have also been observed – for example, Morduch and Sandler (2004) report that conflicts produce negative growth spill-overs on neighbouring countries.

In addition, **we know from qualitative research that countries emerging from conflict often face massive obstacles to growth**, including weakened financial systems; reduced entrepreneurial and management capacities owing to displacement (shortage of skilled workers); and weakened institutions that are necessary for protecting property rights and supporting an effective regulatory environment for markets (Gorlorwulu, 2011).

However, more recent cross-country studies have found **evidence of conflict's growth-generating effects.** In a good example of disaggregation analysis, Polachek and Sevastianova (2011) ask how different types of conflict affect country growth rates. Using conflict variables from the Correlates of War project, they find that **low-intensity conflict slows annual growth much less than high-intensity conflict**, and may actually increase it. Using panel data from 189 countries on a range of disasters, Sawada et al. (2011) additionally find that, in the long term, wars have positive impacts on per capita GDP growth. Further, while not focusing explicitly on growth, Bircan et al. (2010) report that, although income inequality rises during war, peaking around five years after the end of a conflict, it tends to fall back to pre-war levels by the end of the first decade of recovery. This evidence provides an interesting (although still massively outweighed) counterbalance to the near-concrete econometric conclusion that conflict necessarily devastates economies. Indeed, it suggests that the long-term effects of violent conflict are quite different and somewhat less negative than its short-term effects.

There is a particular interest in estimating the impacts of civil war on economies, because **weak growth and low incomes are themselves perceived to fuel further conflict and entrench cycles of violence.** This view is supported by additional econometric evidence, with Sambanis (2002: 229) reporting that 'economic studies of civil war have successfully identified an empirically robust relationship between poverty, slow growth, and an increased likelihood of civil war onset and prevalence', and that 'these

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[13] Methodological and empirical critiques of studies such as these must also be acknowledged. Collier's well-known 2.2% finding, for example, has been called into question by Imai and Weinstein (2000), who argue, among other things, that the geographic spread of war must be considered in growth predictions; their work also shows that widespread conflicts generate losses of 1.25%, while conflicts of narrower spread generate even smaller losses.

results are robust to different econometric methods'. Collier and Hoeffler (1998) provide some of the most widely cited evidence for this relationship, and their findings are backed up by scores of other studies, including Collier and Hoeffler (2002), Fearon and Laitin (2003) and Miguel et al. (2004). More recently, Collier et al. (2008), using data from 68 post-conflict episodes from 1960 to 2002, find that higher post-conflict income and faster growth significantly reduce the risk of civil war relapse (while democratisation and elections are found to be associated with not lower, but higher risks), suggesting that economic growth in the post-conflict period is good for peace.

However, there are some important caveats to this finding. First, econometric studies use various (proxy) indicators or instrumental variables to measure economic growth, from GDP to rainfall in Sub-Saharan Africa. The interpretation of proxies is subjective and findings are therefore based on various assumptions. For example, as Humphreys (2003) points out, while Collier and Hoeffler (2002) interpret GDP as a proxy for opportunity costs for would-be rebels, Fearon and Laitin (2003) use it as a proxy for state strength. Explanations of the relationship tend, therefore, to be based on hypotheses rather than empirics. And second, slow growth may be associated with conflict, but there are also a number of factors that mediate the strength of this relationship. For example, conflict may – and often does – persist in countries enjoying high rates of economic growth (as measured by GDP). In such cases, it may be the case that other factors, such as population growth, are contributing to conflict (Humphreys, 2003).

For these reasons, it is important to treat the central finding of this econometric literature – that **there is a positive relationship between poor economic growth and civil war** – with some caution; econometricians may have identified a strong association, but it is not clear whether this is necessarily causative or merely correlational.

Finally, there is a related sub-set of literature on the **economics of defence spending**. Most of the evidence within this literature suggests that military expenditure tends to have no positive impact on economic growth, and is in fact more likely to reduce it: Ram (1995) reviews 29 studies, finding little evidence of a positive effect of defence spending; Dunne and Uye (2009) survey 102 studies, finding that, while 20% of cross-country studies and case studies report a positive effect, 39% of the former and 35% of the latter report a negative one; and Dunne (2011), analysing military spending and economic growth for 170 countries between 1988 and 2006, reports short-run but not long-run negative effects – he also disaggregates by wealth group, finding that military spending would appear to have been more damaging to the poorer countries.

# 4 What works? Interventions and effectiveness

Livelihood security and (broad-based, inclusive) growth are generally seen to be good for development and for peace. By extension, so too are interventions that seek to protect livelihoods and promote economic activity. For example, the UN Secretary-General's 2006 progress report on the prevention of armed conflict makes linkages between effective livelihoods and food security interventions and increased stability, arguing that, 'tackling food insecurity and related problems of agricultural underproduction and resource scarcity can do much to stabilize a fragile situation' (in Alinovi et al., 2007: 5). More recently, the 2011 World Development Report (World Bank, 2011) placed significant emphasis on the importance of providing jobs in building pathways out of conflict, while employment generation has been identified as a key priority in several approved submissions for financing from the UN Peace-building Fund by Burundi, Liberia and Sierra Leone (UNDP, 2008; World Bank, 2011).

Thus, livelihood and economic recovery interventions are often thought of as having peace-building qualities, and indeed there may be some logic to this. However, high-quality empirical evidence on the impacts of such programmes implemented by aid agencies and governments in conflict-affected situations is scarce. Evaluations of programmes conducted by international NGOs and UN agencies are generally output and/or process focused, with little or no examination of impact. The few reviews of current programming that do exist tend to cite only examples of initiatives being undertaken by different agencies, addressing the relevance and effectiveness of programming but generally not getting to grips sufficiently with questions of impact (see, among others, Jaspars and Maxwell, 2009; Levine and Chastre, 2004; Longley et al., 2006; MacSweeney, 2008). This is perhaps unsurprising, given that the highly contextual nature of many interventions – in terms of setting, programme design and local governance and politico-economic dynamics – renders engaging in meta-analysis challenging (at best). There are also a number of evaluations lacking in rigour, where statements on impact are based on the subjective judgements of the evaluation team, often with little or no quantification (see, e.g., Ranaweera and Jayasinghe, 2011). Therefore, as Jaspars and Maxwell (2009: 10) point out, 'it is difficult to give criteria for when different types of interventions are appropriate and feasible, based on information on impact'.

This section explores the kinds of interventions being implemented in fragile and conflict-affected situations to support and promote people's livelihoods and stimulate economic activity. Drawing primarily on the category of 'programmatic evidence' introduced in Section 2.4.2, we attempt to go beyond a straightforward description of aid agency and government efforts, considering also questions of impact and effectiveness (where evidence is available). We also provide a brief discussion on the relationship between interventions and conflict dynamics, and outline the form and function of conflict-sensitive programming.

As mentioned in Section 2.3, separating livelihoods from economic activity and growth is problematic – undesirable even. Livelihoods are often closely connected to markets and the processes and institutions governing them, and it is local economic activity that constitutes the foundations of broader economic growth at the country level. Thus, we purposely avoid the fruitless exercise of shoehorning numerous interventions into separate 'livelihoods' and 'growth' boxes by instead organising them in accordance with their intended objective (recognising of course that interventions are often assigned multiple objectives at the same time). We borrow from Jaspars and Maxwell (2009), who group livelihood interventions by:

- Livelihood provision (directly affecting outcomes through meeting basic needs and contributing to personal safety)
- Livelihood protection (protecting assets and preventing negative outcomes)
- Livelihood promotion (improving strategies, creating assets, enhancing access to markets and supporting appropriate institutions and policies)

Table 4 presents examples of interventions that fall under each category, as well as information on their typical context for delivery.[14]

**Table 4: Examples of livelihood interventions in different fragile and conflict-affected situations**

| Interventions | Context |
|---|---|
| **Livelihood provisioning** | |
| Food aid to all affected groups | All (rural, IDP, returnee). Acute conflict and post-conflict |
| Fuel-efficient stoves | IDPs. Acute/protracted conflict |
| Provision of grinding mills, non-food items, clothes | IDPs. Acute/protracted conflict |
| Vouchers to meet non-food needs (e.g. milling, non-food items, clothes) | IDPs. Acute/protracted conflict and post-conflict |
| Cash transfers/cash for work | Rural. Protracted conflict/drought<br>IDPs, populations suffering economic blockade<br>Periods of relative stability: DRC |
| **Livelihood protection** | |
| Seed and tool distribution | Rural (rebel-held areas), IDPs, returnees. During and post-conflict, in most conflict settings |
| Seed vouchers and fairs | Rural. Protracted conflict |
| Cash transfers/cash for work | Returnees (livelihood recovery) |
| Fodder distribution/safe places for livestock | IDPs. Acute conflict |
| Restocking (e.g. donkeys as essential assets for firewood, water collection; small stock as a source of food and income) | IDPs, returnees |
| Income generation (including market gardens)/savings and loans | Protracted IDP and refugee<br>People affected by conflict but not experiencing open hostilities (e.g. stable rebel-held areas)<br>Returnees |
| Veterinary care/provision of veterinary drugs | Rural/IDP. Acute/protracted conflict |
| Agricultural extension: seed multiplication/crop protection | Protracted conflict. Rural |
| **Livelihood promotion** | |
| Skills and vocational training | IDPs, refugees, ex-combatants |
| Microfinance | All |
| Strengthening community organisation to increase access to services (e.g. community livelihood groups and disaster preparedness planning, farmer field schools, savings and loans groups) | Protracted conflict. Government- and opposition-held areas |
| Supporting localised peace initiatives *and traditional governance, for example in opening up migration routes, efforts to stay neutral, conflict resolution* | Protracted conflict |
| Market access programmes – road rehabilitation, farmers' cooperatives, linking producers with markets, voucher programmes, M4P and value chain approaches | Protracted conflict. Periods of relative stability |
| Advocacy on compensation, voluntary return *and freedom of movement, access to land, opening borders, etc.* | Acute/protracted conflict |
| Mapping land tenure systems and land occupation | Acute/protracted conflict |

**Note: Interventions in italics are mentioned in agency reports but few or no examples were found in practice.**
**Source: Jaspars and Maxwell (2009).**

[14] We review social protection interventions separately in Carpenter et al. (2012), but recognise that there are significant overlaps with the programmes discussed here.

## 4.1 Livelihood provisioning

Interventions classified as 'livelihood provisioning' tend to be geared towards emergency contexts and aim to meet people's basic needs and improve personal safety. We focus here on food aid, cash and public works programmes.

### 4.1.1 Food aid and cash

The provision of assets to poor and vulnerable households is an essential part of livelihood programming in fragile and conflict-affected situations. Food assistance can be a form of asset provision and is common in protracted crises in places such as South Sudan, Karamoja in northeast Uganda and Afghanistan (see Carpenter et al., 2012). In Darfur, the World Food Programme (WFP) increased food rations explicitly so beneficiaries would sell some of the ration to gain income, thus serving to lower food prices in the market, and even when food aid levels decreased in Darfur, people continued to sell food aid to meet other needs (Jaspars and Maxwell, 2009). Similarly, in Sierra Leone, out of 124 sampled households that reported receiving food assistance on a total of 261 occasions, in 97% of cases the food was used to feed agricultural labourers, which shows the facilitative role food assistance can play in supporting agricultural rehabilitation (Longley et al., 2006). Indeed, it can be conceived of as a form of social protection in fragile and conflict-affected situations (see Carpenter et al., 2012).

Yet, the evidence suggests food assistance is not always an appropriate mechanism to support livelihoods in conflict-affected situations, particularly in protracted crises where it may stall or hamper livelihood recovery. In eastern Sudan, for example, the placement of relief centres in towns or main villages drew Beja pastoralists from their villages, which both delayed the reconstitution of their herds and accelerated environmental degradation around the settlements, making it more difficult for local communities to farm or raise livestock (Pantuliano, 2007). In such circumstances, cash may be a more appropriate mode of assistance, with preliminary results on cash transfers by Oxfam in the Tokar showing that people have been using cash provided to buy livestock in order to strengthen their herds (ibid.).

Cash transfers and cash for work are important social protection mechanisms that can also support livelihood recovery in fragile and conflict-affected situations. It is clear from a number of project evaluations assessed by Carpenter et al. (2012) – covering Turkana in northern Kenya, northern Uganda, southern Somalia, southern Niger and Aceh in Indonesia – that cash transfers can be used to facilitate coping in crises, and may later on be spent on recovery activities such as rebuilding houses, investing in productive assets (including livestock), school fees and health care, particularly when the value of the transfer is larger. Cash for work projects may also be used to (re)construct the necessary infrastructure and environmental conditions for people to pursue agricultural livelihood strategies. In Helmand, Afghanistan, for example, the USAID-funded Alternative Income Project – which distributed over $4.1 million in wages, with labourers paid on average $4 per day – has helped improve access to water and build better functioning drainage systems. It has also sought to improve land quality to enable farmers to grow a range of alternative agricultural commodities to opium (Chemonics International, 2005). Such investment is vital: one qualitative study of microfinance in Afghanistan found a lack of investment in the rural economy and infrastructure since 2001 had contributed to the persistence of high risk in rural livelihoods, thus limiting the livelihood promotion impacts of microfinance interventions (Kantor, 2009). Moreover, evidence from Badakhshan suggests that only in areas where both adequate irrigation and sufficient market connections exist are vegetable crops able to provide sufficient returns to mitigate the loss of income from opium poppy (see Pain, 2012).

### 4.1.2 Public works programmes / infrastructure

Short-term employment generation in fragile and conflict-affected situations consists of a range of activities, including food and cash for work and larger-scale infrastructure projects (Harvey, 2009; Harvey et al., 2009; McCord and Slater, 2009). Most schemes offer participants short-term, low-skilled and low-wage jobs in areas such as construction or rural development. They are often implemented by governments or donors, but sometimes also by NGOs or the private sector. Projects usually have multiple objectives, such as: the provision of a social safety net; the provision of food aid to the most economically vulnerable groups; the reintegration into the economy of ex-combatants to promote stability; and the rebuilding of infrastructure after conflict. Assessing the overall impact and cost effectiveness of such projects is therefore not straightforward, and most debate in the literature has focused on the effectiveness of such schemes in terms of providing a safety net or promoting poverty reduction, rather than the job creation component (see Section 4.3.4 for a specific analysis of job creation).

Few robust impact assessments of public works programmes have been carried out, even in stable contexts (DFID, 2009). Moreover, even when such assessments are conducted, they tend to be of limited value. Indeed, in many cases, the following assertion made by the World Bank (2002: 5) a decade ago still holds true:

> Evaluations rarely track post-program outcomes beyond a couple of years, so little evidence exists on longer-term impacts. Many studies do not estimate the deadweight, substitution, and displacement effects and thus cannot account for the general equilibrium impacts of programs. Many do not fully consider program costs and thus cannot offer insights on the key policy issue of efficiency.

The evidence that does exist regarding the longer-term impact on employment appears to be mixed, suggesting that public works projects do not necessarily contribute to longer-term job creation, and that negative employment impacts for participants may in fact result from the stigma associated with past involvement in a public works programme (Betcherman et al., 2004). However, by developing skills and infrastructure (the value of which is perhaps particularly great in a post-conflict setting where infrastructure has been damaged or destroyed), such programmes may contribute to future sustainable growth, which in itself may contribute to job generation in the long term (although this is unlikely to be picked up in evaluations of direct effects of such programmes on participants).

It is thought that rehabilitation of infrastructure can potentially help unlock a society's economic potential and also promote social reintegration (Mills and Fan, 2006). However, a recent study by Jones and Howarth (2012) finds that there is 'little evidence to suggest that infrastructure investment necessarily plays a significant role in the process of stabilisation' (ibid.: iv). Indeed, the implementation of infrastructure programmes during violent conflict is extremely challenging and the presence of such interventions may have little relevance or effect in contexts of weak governance and ongoing insecurity (ibid.: iv). Moreover, the authors state that it is possible for 'poorly designed or implemented' infrastructure programmes to 'do harm' in conflict-affected contexts by 'encouraging corruption or raising expectations that are subsequently disappointed' (ibid.: iv).

It is also thought that transport infrastructure can help bring new economic opportunities to particular regions, removing the geographic exclusion that may represent an underlying cause of grievance and instability (DFID, 2010b). However, many evaluations highlight weaknesses in terms of the quality and sustainability of the assets being built, and the availability of sufficient complementary resources, tools and technical skills. This would undermine the potential long-run growth benefits of such programmes. It would also seem that public works programmes usually require significant additional funds to provide the technical and management support needed to create useful and sustainable assets (McCutcheon, 2008). In addition, major infrastructure projects in areas where conflict continues can become targets for insurgents and require expensive protection (DFID, 2010b).

The performance of public works projects against their various other objectives also seems mixed. Public works projects can clearly provide short-term employment for potentially large numbers of people depending on the scale of the project. However, many reports do not consider the overall impact of these employment opportunities on the potential beneficiaries, or indeed the overall macroeconomic impacts, for example in relation to displacement of other jobs (McLeod and Davalos, 2008; UNDP, 2002). One common problem is that high demand for the work available means rationing it. This restricts the income each household receives and means that wages make a relatively small contribution to household food security (Harvey et al., 2010).

Furthermore, the literature frequently raises the problem of targeting. Food for work initiatives are often assumed to be self-targeting (meaning that, because wages are low and the work demanding, only poor people want to participate), but in practice this rarely seems to be the case, unless wages are set so low that they risk failing to meet other objectives (Barrett and Clay, 2003). There is also some evidence that stronger groups monopolise such opportunities (Dietz, 2006a; 2006b; Harvey, 2009; WFP Afghanistan, 2004; WFP Tajikistan, 2006).

The issue of targeting seems potentially important from the point of view of job creation, as it may affect the extent to which short-term jobs created by such schemes crowd out other, potentially more sustainable or productive private sector jobs or microenterprises. If it is the most able people who are taking these publicly funded, short-term jobs, they are perhaps more likely to be doing this both instead of other productive activities and instead of disadvantaged groups, who may otherwise be unable to work. However, differences in productivity between these two groups may also affect the overall quality of the outputs achieved. There is surprisingly little discussion of these issues in the literature.

## 4.2 Livelihood protection

Livelihood protection interventions aim to safeguard assets and prevent negative outcomes. Protective interventions are considered vital to facilitating livelihood recovery, and it is thought they may help increase resilience, ensuring that accumulated assets are not exhausted through cyclical environmental stress or renewed conflict (Le Sage and Majid, 2002).

Generally speaking, protective interventions have tended to be geographically concentrated in rural areas and sectorally concentrated in agriculture (Jaspars and Maxwell, 2009). For example, a number of post-conflict governments in Africa have made livelihood protection interventions in their agriculture sectors. In Liberia, this includes the distribution of pest management inputs, seeds and fertilisers, as well as organising production and marketing groups, supplying agro-processing machines and encouraging the formation of farmer cooperatives (IMF, 2011a). The Rwandan government is pursuing interventions such as farmer field schools (FFS), hybrid crops, agricultural extension and factory construction (IMF, 2011b). Outside Sub-Saharan Africa, the Agriculture and Fisheries Production Promotion Fund (AFPPF) in Yemen has sought to promote agriculture, livestock and fisheries production through a wide range of activities, including subsidies on agricultural inputs and equipment (seeds, fertiliser, tractors, etc.), water projects and production marketing schemes (van de Walle, 2002). The only evaluation on the AFPPF, conducted in 1999, did not address impact, but did highlight questions as to the extent poor households were really being reached (ibid.). Therefore, in these cases, there is once more a failure to effectively monitor the impact of interventions, with the recurring theme of a focus on outputs again at the heart of the analysis of progress (IMF, 2011a; 2011b). Furthermore, while progress and trends within the agriculture and food security sector may be examined, it is not possible to link this effectively to the success or failure of specific livelihoods interventions.

This sub-section focuses on two common types of protective intervention in fragile and conflict-affected situations: **seeds and tools, vouchers and fairs**; and **livestock interventions.**

### 4.2.1 Seeds and tools, vouchers and fairs

Based on this review of the available research studies and evaluations, seeds and tools distributions appear to be the predominant livelihood intervention by aid agencies in fragile and conflict-affected situations, at least within the protective category. Yet, **the use of this intervention often appears to be more force of habit than the result of an effective assessment of the needs of affected people and communities on the ground.** For example, Levine and Chastre (2004), assessing seven cases of seeds and tools distributions in fragile and conflict-affected situations in the Great Lakes region, were unable to find any evidence of any assessment of access to seeds and tools prior to distribution. Instead, seed needs are often inappropriately inferred from food needs assessments, with the most common justification for seed aid being a decline in crop harvests (Sperling and McGuire, 2010). Although declining agricultural and food production is indeed a major problem in conflict situations – Teodosijevic finds that per capita production decreased by an average of 10% across 38 countries that experienced conflict between 1961 and 2000 (in Pingali et al., 2005) – as evidence from Ethiopia and Zimbabwe shows, even if all seed for future planting comes from their own harvest, farmers often require only a small proportion of the crop to re-sow (Sperling and McGuire, 2010).

Further, as both our systematic review on seeds and tools (see Box 4) and the work of Sperling and McGuire (2010) find, seed aid, when not based on a clear assessment of need, may lead to negative impacts, including providing the wrong crop or variety for the location; providing it too late for farmers to plant; or inadvertently introducing new diseases, pests or weeds. More encouragingly, the situation does seem to be changing, with major donors such as USAID's Office for Foreign Disaster Assistance now refusing to fund seed aid without clear assessments justifying need, and major implementers such as the Food and Agriculture Organization (FAO) increasingly moving away from blanket seed distributions towards vouchers and other approaches (McGuire and Sperling, 2011).

In terms of impact assessment, the few evaluations of seeds and tools interventions that do exist tend to be focused on internal operational practicalities or, again, on simple output indicators, such as number of beneficiaries, leaving key questions such as 'whether the seed was planted, actually grew, was the "right kind", or even whether it arrived on time' unasked and unanswered (Sperling and McGuire, 2010: 199). These findings, drawn from track three of the evidence review process outlined in the Introduction to this review (and explained more fully in Annex 1), are supported by the results of the systematic review on seeds and tools in fragile and conflict-affected situations, as summarised in Box 4.

**Box 4: The impacts of seeds-and-tools interventions in fragile and conflict-affected situations – summary of a systematic review**

From the 2,378 results initially retrieved from a systematic search process involving seven academic databases and thirteen institutional websites, following screening nine studies were deemed of sufficient relevance to be included in the final analysis. All of the countries examined in the studies were from Sub-Saharan African, with six (from four of the studies) directly relating to conflict dynamics – Burundi, DRC, Sierra Leone, Somalia, Southern Sudan and Uganda.

The quality of the studies reviewed was mixed, with methods quality and data scores, while still modest, generally higher than those for causal assumptions and research considerations such as gender analysis, ethics and reflexivity. Although the studies employed a range of qualitative and quantitative methods, from interviews to surveys, the majority used qualitative or mixed methods, with most employing either one or multiple research methods on a small (single community) or larger sample (more than one community). Seven of the nine studies made no reference to their causal assumptions, with studies generally making little effort to identify causal linkages between intervention and outcome, but almost half adequately described sampling strategies appropriate to the aims of the study.[1] The vast majority of studies scored poorly on the research considerations outlined above. The findings on impacts outlined below should be viewed in light of these reflections on the quality and robustness of the data on which they are based, as well as the low number of studies included in the final analysis.

Assessing impact was made difficult by the fact that the studies assessed a wide range of outcome variables. In addition, most outcome variables were poorly or vaguely defined, making cross-study comparisons difficult.[1] Disaggregating seeds and tools interventions by type, the following broad findings can be identified:

- Direct seed distribution (DSD) can increase the seed security and food productivity of households, and can also help address absolute seed shortages.
- Seed fairs can promote social cohesion and may strengthen local markets and farmer systems.
- Distribution of hoes can increase household income and assets.

It is extremely important to note that the relationship between intervention design and/or implementation and context mediates these impacts. Seed interventions must be 'appropriate' to generate positive outcomes, and the following findings subsequently relate to the what (type of seed), the why (rationale) and the how (targeting) of seed distribution:

- Seed variety and quality must be suited to local environmental characteristics and farmer preferences.
- Certain types of intervention (e.g. DSD) may be inappropriate in situations where access to seed, rather than seed availability, is the major barrier.[1]
- Non-inclusive seed targeting strategies can exclude the most vulnerable households, reinforce unequal power relations and undermine social cohesion.

The studies therefore highlight that seed interventions that ignore or fail to build on existing seed systems, farmer practices and institutional norms will have reduced positive, or even negative, impacts. This is further demonstrated by data on post-intervention smallholder seed procurement strategies and the variety of sources from which farmers continue to obtain seed in conflict and crisis situations.

**Note: A more comprehensive write-up of this systematic review is forthcoming.**
**Sources: Archibald and Richards (2002); Jones et al. (2002); Langyintuo and Setimela (2009); Longley et al. (2001); McGuire and Sperling (2008); Orindi and Ochieng (2005); Remington et al. (2002); Save the Children (2004); and Sperling (2002).**

An alternative approach by Oxfam GB in Colombia involved providing IDPs with productive packages – including items such as agricultural inputs, livestock, commodity purchases for petty trading and raw materials and inputs for handicraft production or street food vending – the exact contents of which were determined on a case-by-case basis through a livelihoods self-assessment undertaken by beneficiary families or collectives in consultation with project staff (Hill, 2004). Such an approach allows beneficiaries to decide which strategy they believe will be most successful based on their existing knowledge and skills and on their assessment of the conditions and opportunities in their new environment (ibid.). However, although this project represents an interesting alternative to the default seeds and tools distributions of many aid agencies, unfortunately no impact evaluation has been carried out to date.

In cases of displacement, farmers often need land rather than seeds. In conflict-affected contexts like eastern DRC, the sharp decrease in agricultural production is caused mainly by lack of access to land and the disappearance of agronomists to assist local farmers (Vlassenroot et al., n.d.). Similarly, in all five rural case studies of conflict-affected situations in the Great Lakes analysed by Levine and Chastre (2004), access to land proved a major factor in determining livelihood outcomes. Yet, interventions in this area – such as trying to find temporary land for the displaced, prioritising security-related access issues and seeking to address structural issues of control over land – are rare (or at least we found very little evidence-based literature on them).

**The failure to adequately address the issue of land has been noted as a defining feature of seeds and tools interventions** in the humanitarian sector, with agencies paying insufficient attention to how local systems of agricultural production and land distribution change in conflict situations (Pantuliano and Elhawary, 2009). An exception to this general finding can be found in the OPT, where a number of agencies came together to combine livelihood interventions, such as cash for work and agricultural support, with liaison and advocacy activities with local and national authorities in order to help farmers retain their land (Jaspars and O'Callaghan, 2010a).

Where markets are functioning, the distribution of free agricultural inputs can have a potentially negative impact in the longer term, with problems surrounding the central issues of dependency and how farmer reliance on external inputs affects local market systems (Alinovi et al., 2007; McGuire and Sperling, 2010). Therefore, **fairs and vouchers have become a frequently used tool in seed and agricultural input market rehabilitation in post-conflict situations.** Conflict may undermine the trust and confidence necessary for seed exchange, which sometimes occurs through markets, but often through practices such as swapping, borrowing and gifting (Richards, 2010; World Bank, 2011).[15]

Subsequently, seed vouchers and fairs, as well as similar schemes for other agricultural inputs, can be viewed as a means of helping resuscitate seed exchange and markets – indeed, the evidence on such interventions is relatively positive, if rather limited (see Box 4). For example, a Catholic Relief Services (CRS) voucher programme in Afghanistan was designed to promote local economic activity and growth through the provision of livelihood vouchers worth $70, which beneficiaries could then exchange for a number of different inputs, including seeds; tools; fertiliser; animal traction or tractor services; livestock; wool and tools for carpet weaving; and tools for masonry, carpentry, tailoring or blacksmithing (Reilly, in

[15] It is sometimes supposed that conflict has a negative impact on food security through the destruction of seed types. There is little evidence, however, of accelerated genetic erosion in conflict situations (McGuire and Sperling, in Richards, 2010).

Longley et al., 2006). Vouchers can prove a useful mode of distribution in situations of ongoing conflict and prevailing insecurity (Jaspars and Maxwell, 2009), where, as in the DRC, pillaging of seed centres and households can reduce the positive impacts of seed distribution on household economies (Vlassenroot et al., n.d.).

The work of Richards (2010) highlights the potential for a 'ritual approach' to seed distributions and fairs to facilitate peace building at the local level, although it is important to point out that the systematic review found that non-inclusive seed targeting can serve to reinforce unequal power relations and undermine social cohesion (see Box 4). It should also be noted that, both during and after conflict, there are often 'pockets of stability' where those with continued access to land, labour and other productive assets find ways to obtain at least some seed, from either their own stocks or local markets. This was the case in Rwanda immediately after the 1994 genocide and in Sierra Leone during the conflict of the 1990s, with farmers in the middle of a war zone actually able to increase production (Sperling and McGuire, 2010).

### 4.2.2 Livestock interventions

For pastoralists and agro-pastoralists, livestock services and re-stocking are essential livelihood support and recovery interventions. Agencies have provided veterinary care for livestock owned by IDPs and rural populations in a number of conflict situations, including Darfur and South Sudan (Jaspars and Maxwell, 2009). Livestock vaccination, the supply of veterinary drugs and the training and support of community animal health workers are of particular importance in the absence of functioning government services in fragile and conflict-affected situations, especially where the risk of livestock disease is increased owing to overcrowding and blocked migration routes (ibid.). However, empirical evidence on the impact of livestock interventions can be difficult to assess, as there is no gold standard in veterinary medicine for assessing this (Catley et al., 2005). The evidence on livestock interventions in South Sudan (under Operational Lifeline Sudan) reviewed by Catley et al. (2005) shows that the introduction of community animal health workers and heat-stable rinderpest vaccine was associated with a steady reduction in rinderpest outbreaks, to the point where they were no longer occurring – a reasonable proxy indicator of impact at the macro level.

But, like the other livelihoods interventions examined here, many evaluators concern themselves mainly with project outputs and issues of implementation and process, particularly those engaging in routine project monitoring and evaluation (Catley et al., 2005; Gandhi and Krijnen, 2006). An important potential gender dimension of such projects is the training of women as basic veterinary workers, which in societies such as Afghanistan challenges the traditional image of a woman simply as a mother and wife. Yet, the evaluation of the Afghanistan project was carried out only five months after the women started working, which was unfortunately too early to assess any transformative effects (Gandhi and Krijnen, 2006).[16]

## 4.3 Livelihood promotion

Of all the programmes discussed here, livelihood promotion interventions have perhaps the greatest transformative potential, focusing as many of them do on improving people's future livelihood prospects, be it through training, improving access to credit or altering the governance of market systems.

As above, a high proportion of livelihood promotion interventions have tended towards the rural and the agricultural. In Sierra Leone, for example, FFS schools were introduced, aiming, in the government's words, to 'build on partnerships which have been developed during the emergency operations, engaging civil society organisations, especially representatives of farmers' organisations, as true partners to supplement the efforts of the public sector' (Longley et al., 2006: 24). FFS are also being implemented in other post-conflict settings, such as Rwanda (IMF, 2011b). This is an important initiative, given that top-down transfer of knowledge can fail to bring about behaviour change among farmers, as seen in, for example, Afghanistan (Gandhi and Krijnen, 2006). Yet, Longley et al. (2006) highlight the failure to link

[16] This situation is symptomatic of a wider failure to allow sufficient time to measure sustainable impact in livelihoods and growth interventions in fragile and conflict-affected situations, as highlighted in an online discussion among leading experts and practitioners in the field (QED Group LLC, 2008).

FFS to technological innovations, such as Nerica rice varieties, and question their efficacy and sustainability given the constraints of the costs of transport and the high level of training of facilitators required. The FFS initiative has, however, been complemented by support to farmers' associations, rural community groups and cooperatives (initially in the form of grants, loans and management training), which may help address some of the sustainability concerns around FFS (Longley et al., 2006).

We focus here on a number of promotional interventions explicitly designed to increase the economic productivity of beneficiaries, including, **microfinance**, **value chain development (VCD)**, **M4P**, **job creation** and **training.**

### 4.3.1 Microfinance

Microfinance is among the most widely and enthusiastically discussed of livelihood and economic interventions in fragile and conflict-affected situations. Drawing on empirical work from Matul and Tsilikounas (2004) and Santos (2003), German Technical Cooperation (GTZ, 2006: 20, emphasis in original) claims that 'microfinance can serve as perhaps *one of the most efficient instruments* to support household incomes, self-employment and micro-enterprise formation during post-conflict reconstruction periods'. Frasier and Bne Saad (2003: 7) additionally suggest that microfinance has the potential to facilitate 'a smooth transition from short-term humanitarian assistance to longer-term development'.

However, claims such as these tend to be thinly evidenced. It may well be that microfinance is simply assumed to work, almost regardless of context (although this is increasingly being shown not to be the case (see Duvendack et al., 2011), which would also help explain why the vast majority of the substantial literature on microfinance and conflict focuses on the technicalities of programme design and implementation rather than on impact. Indeed, a range of 'concrete' lessons, often derived from donors' own experiences, are available to practitioners wishing to deliver a microfinance intervention in a conflict-affected environment. For example:

- Donors must ensure relief services and microfinance services are kept separate (USAID, 2009)
- It is important to create partnerships between microfinance institutions, the private sector, the commercial banking sector and international microfinance support organisations (ESCWA, 2009)
- Donors should make efforts to understand the causes of conflicts and recognise that not all post-conflict situations are alike (Nagarajan, 1999)

Yet, the empirical basis for such lessons is not always clear. Discussions of methodology and data are often limited to a brief statement assuring the reader that the agency in question has previous microfinance experience in conflict settings, and it is also sometimes unclear whether the evidence and lessons presented are particular to conflict-affected situations or drawn from a broader experience of delivery in more stable contexts. Indeed, we often simply do not know what the empirical basis for claims and conclusions consists of, which is particularly frustrating given the recent publication of a number of relevant impact studies. Non-systematic searches conducted as part of this review unearthed a surprising number of studies examining the impact of microfinance interventions across a broad range of fragile and conflict-affected situations, including Afghanistan (Greeley and Chaturvedi, 2007; Kantor, 2009; Zand, 2010), Bosnia and Herzegovina (Hartarska and Nadolnyak, 2008; Matul and Tsilikounas, 2004),[17] DRC (Matabisi, 2011), Guatemala (Meissner, 2005) and Nigeria (Abiola, 2011). A full assessment of these reports is beyond the scope of this paper, so it is unclear to what extent each of the studies relates its analysis to conflict; assesses the microfinance intervention against socioeconomic indicators; and measures actual impact as opposed to outcome or output. Nonetheless, given the emergence of these studies in the past few years,[18] a systematic review of the impacts of

[17] Impact studies of microfinance in Bosnia and Herzegovina have already been synthesised and assessed by Welle-Strand et al. (2010). who conclude that, on balance, there have been mixed impacts.

[18] It is highly likely that further impact studies of this nature exist. As Hagen-Zanker et al. (2012) explain, much of the evidence on the impacts of development interventions is found not in peer-reviewed journal articles but on institutional websites, thereby necessitating a lengthy and extensive process of hand searching.

microfinance programmes, specifically in conflict contexts, might prove valuable at this time, if for no other reason than to mainstream impact in a literature dominated by 'best practice' how to notes.

Nonetheless, microfinance and microcredit programmes have been supported and implemented quite extensively in fragile and conflict-affected situations – both by governments (see IMF, 2006; Longley et al., 2006) and by NGOs and donors – and three central findings can be synthesised from the evidence that has emerged from research on and evaluations of such programmes.

First, primary research on Angola, Cambodia and Mozambique, drawing in the main on semi-structured interviews and focus groups, confirms the **minimum conditions** proposed by Doyle (1998) **for microfinance in post-conflict situations**: low intensity of conflict, reopening of markets and long-term displacement (Wilson, 2002). Demand for microfinance is also found to be higher, and to have grown more rapidly, in urban areas – an observation Wilson (2002) puts down to greater security and reduced uncertainty, functioning markets and some very limited household income.[19] But even where demand is present, people may not necessarily meet the conditions necessary for receipt of a loan. For example, in Juba, South Sudan, most women living in slums and peri-urban areas cannot access microfinance loans at all as they have to have their own plot of land, or to be renting one, and have the associated paperwork (Martin and Mosel, 2011). Wilson's (2002) research also shows that informal microfinance systems, such as informal borrowing and cash-saving schemes in refugee camps, are often already in place, and that **external intervention is most appropriate when it builds on and supports existing practices:** 'where in-kind transfers are the norm, which can be the case in remote areas after conflict, clients prefer to receive loans in kind' (Wilson, 2002: 7; see also Box 5).

Second, microcredit programmes that fail to effectively enforce repayments can undermine future microfinance interventions in a setting. When operating in a relief modality in conflict or early post-conflict situations, loans from some agencies have effectively become grants, given ineffectual repayment enforcement, thus damaging future opportunities for the development of sustainable microfinance institutions (Wilson, 2002). For example, with the onset of peace in Sierra Leone in 2001, many credit programmes were established to help facilitate entrepreneurial economic recovery. Yet, most were undermined by poor targeting, unqualified staff, unsuitable products and, importantly, insufficient systems to recover loans (Tucker et al., 2004). In 2003, a UN Capital Development Fund (UNCDF) assessment mission found that these microcredit programmes with weak repayment had created widespread confusion among clients and practitioners alike, slowing the development of the microfinance sector and thus the speed of livelihood (and wider economic) recovery (ibid.). A similar situation has been observed in Rwanda, where, as a result of failure to collect loans in the years of emergency relief, clients continued to have least respect for NGO-managed microfinance institutions (Wilson 2003).

Third, evidence of the impact of microfinance in fragile and conflict-affected situations, assessed through programme evaluations, is mixed. For example, an evaluation of an American Refugee Committee (ARC) programme in Guinea found significant increases in capital assets among clients progressing from start-up grants to basic and advanced loans (de Klerk and Nourse, 2004).[20] But when compared, the average size of capital assets owned by those who received a grant or loan did not differ significantly from those of the control group. Therefore, although it would have been difficult (if not impossible) for the more vulnerable among the refugees to develop their businesses without the grants and loans, there is no solid empirical evidence that the growth in asset portfolios was a result of access to microcredit through the programme (ibid.). On a different note, van de Walle (2002) shows how certain credit schemes– such as one in Yemen where poor households were given 10 goats or 5 goats and a cow, taught to raise them and then expected to pay back 60% of their value within two years – can carry significant risks for families who must pay back loans even if the animals die, leading to negative impacts on income. An alternative to such traditional microcredit interventions can be seen in PACT's Women's Empowerment Program in Nepal, which enabled 86,000 women to start a business over four years through the mobilisation of a total of $1.18 million in group savings, demonstrating that,

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[19] Wood (2003) also presents high uncertainty as the key constraint on poor households effectively planning for the future, with their insecurity leaving them trapped in risk management in the present.

[20] As de Klerk and Norse (2004) explain, '[c]apital assets owned by grant clients who did not advance to loans totaled on average $16. Clients who advanced to basic loans owned $41, and those who went on to take advanced loans had on average $84'.

even in a country in the midst of conflict, poverty and vulnerability, women can build equity (rather than debt) to facilitate livelihood promotion activities (Ashe and Parrott, 2001; see also Upreti et al., 2012 for a discussion of this intervention).

It is the government of Afghanistan that has gone furthest of all in terms of taking a leadership role in the microfinance sector in its country, with the establishment of the Microfinance Investment Support Facility for Afghanistan (MISFA) in 2003. A number of studies and assessments of MISFA have been carried out over recent years, the findings of which effectively illustrate the mixed nature of the evidence on microfinance in fragile and conflict-affected situations more broadly (see Box 5).

**Box 5: The Microfinance Investment Support Facility for Afghanistan**

MISFA was established in 2003 with the aim of consolidating Afghanistan's microfinance sector and coordinating donor engagement. Between 2003 and 2007, implementing partners distributed a total of $569 million in microcredit loans to more than 440,000 clients across Afghanistan (Kantor, 2009). The story so far has been one of mixed success. While a number of positive impacts have been achieved, a series of problems, mostly relating to programme design and implementation, have been detected and held responsible for underperformance. We outline this picture of mixed success in greater detail below.

**The good**

A major quantitative evaluation covering 79% of the client population in nine provinces of five Afghan regions Greeley and Chaturvedi (2007) finds early signs that MISFA is having a major impact in terms of job creation, with expansions and start-ups providing job opportunities for 414 entrepreneurs and allowing 264 clients to employ other people, from both within and outside the household, either full or part time. It is estimated that every client generates one and a half employment opportunities, which, when extrapolated to all MISFA clients, gives a total of 500,000 jobs. MISFA has also shown signs of success at the household level, with the rate of incidence of crisis situations lowest among clients and a statistically significant difference in the rate of incidence between clients, non-clients and dropouts. The evaluation also highlights positive findings in relation to gendered power relations and perceptions, with 44.1% of women clients reporting 'absolute control' over the money they earned as opposed to 18.4% of non-clients and 37.2% of dropouts, and 80% of female respondents reporting an 'improved attitude' towards themselves on the part of their husbands and other relatives since they joined the programme.

**The bad**

Despite such positive outcomes, the effectiveness of MISFA can be questioned on a number of counts. Pain (2012), drawing largely on the primary research of Kantor (2009), covers some of these:

- **Inappropriate design I: the needs of clients, not the objectives of policymakers, ultimately determine the use of microcredit.** Microcredit through MISFA has emphasised the provision of credit for productive purposes in order to stimulate economic activity and growth. However, evidence from rural areas points to its significant use to meet consumption smoothing requirements rather than productive investment. Thus, development of financial instruments to create social insurance has been limited and secondary to efforts to drive market-based engagement for the poor.
- **Inappropriate design II: context matters.** There is a broader issue about the general lack of interest and understanding of how new formal rules, organisational structures or programmes engage with existing social structures and informal institutions. Demand for microcredit exists in Afghanistan, but so does a vibrant informal credit system. MISFA microcredit thus constitutes just one option among many, and may not even be the best. Indeed, Kantor shows that people often draw from multiple microcredit systems, sometimes using informal credit to pay off MISFA loans,

suggesting a build-up of informal debt. More generally, microcredit and informal credit markets are linked to such an extent that the success of the former may ultimately depend on clients' access to the latter in order to support repayment of the microcredit loan.

- **Inappropriate indicators: measuring effectiveness.** Indicators can be selected to support the public text of success without necessarily questioning or exploring what might underlie this. Early reporting on MISFA focused on the number of microfinance loans dispersed, the number of groups established and levels of repayment, without critically assessing how these loans were repaid and the economic benefits that might have accrued from them. In other words, the focus was placed on measuring outputs, which, while useful for gauging the internal effectiveness of MISFA, provided little insight into beneficiary outcomes.

Sources: Greeley and Chaturvedi (2007); Kantor (2009); Pain (2012).

As a final word on microfinance, it is worth pointing out that, with the exception of a few key reports (e.g. Nagarajan and McNulty, 2004), both impact and technical evidence on microfinance in fragile and conflict-affected situations tends to be confined to post-conflict situations (see also the DFID-funded Post-conflict Microfinance Project).

### 4.3.2 Value chain development

The fundamental objective of value chain development (VCD) is 'to move poor individuals and households out of saturated, low-return activities and into higher-return, growing markets' (Parker, 2008: 1). It involves 'linking poor producers to other private-sector actors who have access to growing markets and who have a clear business interest in partnering with poorer producers as part of their supply system' (ibid.). The available evidence on VCD in conflict-affected situations is broadly similar in nature to that on microfinance: dominated by technical guidance. Indeed, there is a rich literature on practical lessons from value chain projects in conflict-affected situations. Of particular note are outputs from USAID's Value Chain Development in Conflict-affected Environments Project, which include case studies on, among others, the cotton industry in northern Uganda, tourism in Rwanda, fisheries in Sri Lanka, the poultry sub-sector in Afghanistan and the dairy industry in Kosovo.[21] Parker (2008) synthesises these case studies, covering a total of 14 value chains in conflict-affected environments. Key findings or lessons include:

- VCD projects can generate significant economic results in terms of sales, employment and private sector investment (see Grygiel, 2007 on Kosovo; Henning et al., 2008 on Rwanda).
- VCD projects can be used to reach vulnerable populations, even amid conflict (see Locke and Byrne, 2008 on northern Uganda; McMahon, 2008 on Afghanistan)
- The market must be the driver of the VCD project.
- Investment in rebuilding inter-firm linkages and trust is essential but time consuming.
- The **most** powerful champions are often private sector participants within the value chain itself; they can provide leadership for innovation and trust building.

While these are surely important lessons, the specific methodologies underpinning their recommendation are, once again, unclear. Furthermore, reports in this particular USAID series on VCD sometimes conflate output/outcome with impact.

Although not necessarily qualifying as VCD *per se*, ensuring producers have access to markets is essential to supporting livelihoods in fragile and conflict-affected situations. Oxfam's work in DRC highlights a number of ways of doing this, including providing processing equipment to reduce the cost

[21] See http://www.microlinks.org/ev_en.php?ID=23261_201&ID2=DO_TOPIC for a full list.

of travelling to market, creating cooperatives to store and trade food and facilitating transport to markets through the creation of village groups, helping reduce the taxes that have to be paid (Jaspars and Maxwell, 2009). Unfortunately, there appears to be no assessment of how effective these strategies have been. There is, however, some evidence of the impact of road reconstruction as a means to improve access to markets. Also in DRC, the two main NGOs conducting road reconstruction in Masisi have carried out impact assessments, finding that improved roads helped increase freedom of movement through better security as well as reducing transport costs, with farm-gate prices rising from $3 to $11 per sack following the repair of a 12 km stretch of road (Levine and Chastre, 2004).

WFP's **Purchase for Progress** (P4P) pilot initiative, designed to increase smallholders' access to markets, is another intervention being implemented in fragile and conflict-affected situations. The programme is seeking to link farmers into WFP's supply chain to help leverage agricultural growth in some of the world's poorest countries, with 14 of the pilot's 20 countries being fragile or conflict affected, as defined in Annex 1 (Table 5). The programme's mid-term evaluation highlights that, while demonstrating impacts on smallholders is difficult because P4P does not collect data on farm-gate prices for local procurement or P4P purchases in all pilot countries, the preliminary evidence suggests that farmers are making a gross income gain of approximately $ 25, half the P4P target (Mitchell and Leturque, 2011).

### 4.3.3 'Making markets work for the poor' (M4P)

M4P projects are systemic attempts to understand where market systems are failing to serve the needs of the poor and to correct them accordingly. They are a relatively novel approach to economic engagement in conflict-affected (most notably post-conflict) situations.

As part of the research process for this evidence paper, we undertook a systematic review of the impacts of M4P projects in fragile and conflict-affected situations. Box 6 presents the findings.

**Box 6: The impacts of M4P in fragile and conflict-affected situations – summary of a systematic review**

Of the 482 studies retrieved from the systematic search process, involving 7 academic databases and 13 institutional websites, only 3 met the criteria for inclusion in the final analysis. This included studies on 3 countries defined as fragile and conflict-affected situations for the purposes of the review – Bangladesh, Kenya and Uganda – although they did not relate directly to dynamics of conflict or fragility in any way. Reviewing the small number of articles addressing the potential of M4P in fragile and conflict-affected situations, it appears that this is reflective of the fact that the M4P approach has indeed not been tested, or at least rigorously studied and evaluated, in fragile and conflict-affected situations. Ockenden (2011) suggests this may owe to what he describes as 'the overwhelming clamour for "quick wins" and "visible results" in these environments', which militates against the use of longer-term approaches focussed on market development and pro-poor growth.

In terms of research methods, two of the studies were based solely on qualitative methods, and one used largely quantitative methods (although engaging in some qualitative analysis). While one study scored reasonably well (three out of five) on the quantitative scale, the other two either did not adequately articulate their methodology or did not discuss it at all. Perhaps unsurprisingly then, two of the three studies also scored poorly on a sampling strategy, and none of the studies discussed how the data on which their claims of impact are based were collected. Further, only one study addressed the assumptions in the casual logic it promoted. Two of the three studies disaggregated their outcome data by gender, with two studies also analysing gedered power relations, specifically the relative role/power of women in markets. Only one of the studies addressed ethical issues, with the research design having clearly considered the ethics of facilitating producer marketing group (PMG) formation. None of the studies examined the issue of reflexivity.

Notwithstanding the very small number of studies, drawing firm conclusions across these was complicated by two further factors. First, while all three studies address interventions that fit within the M4P approach, a variety of specific activities were undertaken within these, ranging from the provision of business services and skills to facilitating access to markets, the promotion of PMGs and participatory efforts to facilitate market chain innovation. Second, in two of the three studies there were problems of a lack of measurement or quantification of statements on outcomes, specifically in relation to impacts on demand, income and employment.

Despite the limitations of the low number of studies, the diversity of activities that fall within the purview of the M4P approach and the poor definition of outcomes identified above, a number of findings can be drawn from the review:

- M4P interventions, including competitiveness measures, market chain innovation and producer collective action and marketing can lead to increases in the income of beneficiaries (three studies).
- The participatory market chain approach can foster social cohesion, developing trust within a network of producer and research organisations (one study).
- M4P interventions can bring about modest increases in employment within target sectors (two studies).
- M4P interventions can increase (capacity for) innovation among farmers and PMGs (two studies).

Overall, the key finding concerning fragile and conflict-affected situations in this review is that there is currently insufficient evidence on the applicability and impact of the M4P approach in situations of significant conflict and fragility. Further research is needed to test whether the impacts identified above can also be achieved using the M4P approach in such situations; for example, can they facilitate increased social cohesion in these settings? This is an interesting question, given the success of USAID in funding business projects in Kosovo that have helped bring together Serb and Albanian groups in the production and marketing of food commodities (UNDP, 2008). Another particularly pertinent question in these situations is whether, if grounded in comprehensive political economy and conflict analysis, they can effectively help facilitate the (re)inclusion of vulnerable groups, particularly women, cut off from markets as a result of conflict.

**Note: A more comprehensive write-up of this systematic review is forthcoming.**
**Sources: Horton et al. (2010); Katalyst (2010); Ockenden (2011); Shiferaw et al. (2008); UNDP (2008).**

Microfinance, VCD and M4P are all examples of **livelihood interventions whose basic designs are premised on the primacy of the market.** Such interventions attract substantial donor support, perhaps unsurprising given the continued enthusiasm expressed for market-based, private sector-driven recovery in countries affected by conflict. Indeed, the general level of trust in the private sector to deliver growth and drive effective and sustainable war-to-peace transitions remains remarkable. Grossman et al. (2009), for example view the private sector as a 'connector' across social divisions, capable of promoting the social and economic inclusion of disadvantaged groups. Perhaps more boldly, Gerson (2001: 107) claims that 'stabilisation itself depends on private-sector entry', whereas Beasley (2006) is confident that the private sector should be promoted at all stages of conflict recovery.

However, policy guidance has become more nuanced since the days of the Washington Consensus. For example, a recent USAID guide on stimulating post-conflict economic growth advises: 'Do not view privatization as an all-or-nothing choice…Consider sustaining or restarting some of the operations of larger SOEs [state-owned enterprises] to help generate employment' (USAID 2009: x). It is increasingly commonplace for economic interventions to focus primarily on getting people into work as opposed to pure market development or private sector expansion. Two such interventions include job creation and training, to which we now turn our attention.

#### 4.3.4 Job creation

Given that employment creation programmes seek to create both jobs that transfer income to poor people and durable assets that have lasting value (Devereux and Solomon, 2006), they can be considered a livelihood promotion intervention. The literature on job creation relates mainly to efforts to create waged employment in the formal sector, and tends to be associated with short-term public works projects and short-run/emergency job creation (e.g. food and cash for work), usually funded and implemented by the public sector. In general, the evidence on job creation tends to be provided by practical donor guidance and assessments of effectiveness, rather than on academic literature, which is relatively limited.

There has been a great deal of enthusiasm recently for job creation programmes within the donor community. The central message of the 2011 World Development Report, for example, is that 'strengthening legitimate institutions and governance to provide citizen security, justice, *and jobs* is crucial to break cycles of violence' (World Bank, 2011: 2, emphasis added). Asserting that equitable growth and job creation are important for violence prevention, the report suggests a number of ways to facilitate the creation of jobs, including through:

- Private sector recovery
- Investment in basic infrastructure
- Public finance for employment and other 'best fit' approaches
- Economic empowerment of women

With the possible exception of the fourth approach,[22] this represents a fairly orthodox guide to facilitating job creation in conflict-affected countries. Indeed, what is frustrating about the report is that, despite the promising rhetoric around 'best fit' approaches, its policy recommendations concerning job creation turn out to be 'not very context sensitive' and 'actually smack very much of the "blueprint" development prescriptions that the report seeks to avoid' (Jones and Rodgers, 2011: 992). The same authors go on to lament the fact that the report also fails to discuss in any real depth two particularly 'innovative initiatives' regarding job creation: the Productive Safety Net Programme (PSNP) in Ethiopia and the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in India – two initiatives which, at the very least, suggest there are ways other than through market-driven approaches to facilitate job creation.

The enthusiasm expressed by the Bank for jobs as a means to growth and stability is mirrored by the general consensus within the wider literature that employment creation programmes are important in fragile and conflict-affected situations, particularly in post-conflict environments (Beasley, 2006; Collier, 2007; ILO, 2010; Mendelson-Forman and Mashatt, 2007; USAID, 2009). As argued by Berman et al. (2009: 2), much of this enthusiasm – and much of the money spent on job creation programmes – is motivated by an opportunity cost theory of distracting recruits and reducing the risk of (a return to) violence. The logic of this is appealing and may appear deductively sound, but it unfortunately **fails to take into account both the complexities of labour markets and the realities of impact.**

Job creation is not a simple case of responding to unemployment by providing more jobs, nor a technical exercise in matching supply with demand, but an intrinsically political and social issue. True, there are many technical aspects to programme design and implementation (see ILO, 2010), and there is fair amount of existing programmatic evidence that provides a valuable resource to donors and implementing agencies in this regard (see Box 7). But new jobs do not emerge in a vacuum or on a 'blank slate'.

[22] Even so, the report's discussion on women's economic empowerment and job creation does not extend much beyond recommendations to include women in economic initiatives and the identification of a couple of obstacles to achieving this.

**Box 7: Lessons on the technical aspects of job creation interventions**

Much of the literature on job creation is dominated by donor-centric programmatic evidence on technical aspects of programme design. A review of this identifies a number of issues that should be considered in the design and implementation of interventions to promote short-run job creation:

- Projects should aim to promote linkages to longer-term market solutions where possible, for example through internships or on-the-job training and skills development or the use of procurement guidelines, monitoring tools and contractor training programmes to encourage a shift from public sector participation to competitive bidding among private contractors. Only a few papers focus on these linkages, but donor agencies are moving in this direction (GSDRC, 2009; Riley et al., 2009; WFP Ethiopia, 2008).
- Using labour-intensive methodologies and local inputs can increase development gains, but relative efficiency and quality must be assessed carefully. Adequate financial and complementary resources (e.g. appropriately skilled managers and equipment) need to be provided to ensure a programme delivers hoped-for gains. Private sector involvement in design and implementation may help ensure quality and sustainability (Anand, 2005; Beasley, 2006; Blum and LeBleu, 2009; DFID, 2009; ILO, 2008; McCutcheon, 2008; Perman, 2007; Taylor et al., 2008; USAID 2003b). Support to labour-intensive sectors such as agriculture and construction may be important for an early and broad impact on poverty, but labour-intensive sectors may have limited potential for wage growth in the long run, and exclusive support to these may fail to address constraints to wider economic growth (DFID, 2010b; Page, 2006).
- Projects should ideally be linked with national priorities and constitute part of a coherent plan for reconstruction/infrastructure redevelopment/services rehabilitation (ILO, 2008). This is particularly important in fragile and conflict-affected situations, where state capacity is likely to be very limited and where many donors may be re-engaging at the same time. However, it may also be very difficult to achieve as a result of weak state capacity.
- In addition to direct measures of short-term jobs created, evaluations of such programmes should ideally consider other indicators, including long-term job prospects; how the work is allocated among different groups and rationed; wages and income; the extent to which the jobs crowd out other activities; the extent of skills developed with long-term market value; the value and longevity of the work conducted (e.g. quality of infrastructure); and jobs created indirectly through use of local inputs.

What makes discussions of job creation in fragile contexts particularly complicated is the central issue of labour markets. War distorts and reconfigures these, introducing new dynamics that shape access and participation. And while conflict destroys some markets, it creates others, often brutally. While these markets emerge in response to wartime economic activity and are therefore often illicit in nature, their characteristics (weak regulation, high risk, high return, high rent) all create a demand for labour (Cramer, 2005). In addition, conflict increases the fluidity of labour market dynamics, meaning that a job creation intervention that might make sense at one point in time may not at another.

Furthermore, one of the main guiding assumptions underpinning job creation – that there is 'a positive correlation between unemployment and insurgent violence' (Berman et al., 2009: 2) – is highly questionable and does not appear to have been thoroughly tested. Cramer (2010) produced an illuminating background paper on unemployment and violence for the 2011 World Development Report. Drawing on the available evidence, he concluded that **it is often the experience of employment – rather than *un*employment – that drives people to participate in political violence:** poor and exploitative working conditions, extremely low pay and a lack of formal mechanisms through which to express dissatisfaction all help create the conditions for violence. Qualitative evidence from Sri Lanka that ethnic discrimination in labour markets was a driver of conflict (Mayer and Salih, 2006) both reinforces this point and illustrates how labour markets tend to be shaped heavily by broader societal structures and dynamics. Raeymaekers (2011) offers further qualitative evidence on the politics of labour markets, this time from Butembo in eastern DRC. He finds that, although displaced youth are keen to pursue urban- rather than rural-based livelihoods, 'youth access to decent jobs is severely blocked, not so much by their social capital [...] but rather by a murderous market equilibrium' (Raeymaekers, 2011: 27). Access to decent jobs is controlled by a closed group of oligopolistic gatekeepers, meaning the governance of local economic activity is highly exclusionary and deeply political. Labour markets, therefore, are as much about dynamics of power as they are about equations of supply and demand.

Thus, while increasing the number of employment opportunities in conflict-affected situations appears to be an appropriate response to poor growth and instability, if unequal and exploitative labour market structural conditions are not properly addressed, such interventions may not be suitable in such contexts. However, and more fundamentally, the central message of Cramer (2010: 24) is that **the empirical data on (un)employment and violence, in general, simply are not there:**

> There is no remotely convincing evidence at the cross-country, large-N level, at the quantitative case study level, or at the ethnographic, 'qualitative' level, for any bold claims that unemployment is a mechanistic causal factor in violent conflicts in developing countries.

Indeed, there is even some quantitative evidence to the contrary: Berman et al. (2009) apply regressions to data on violence and unemployment levels in Iraq and the Philippines, finding i) a robust negative relationship unemployment and attacks against government and allied forces, and ii) no significant relationship between unemployment and the rate of insurgent attacks that kill civilians.

The lack of empirical data on (un)employment and violence is symptomatic of research on labour markets in conflict-affected situations more broadly. As Cramer (2010: 2) notes, 'the rapid growth of interest among development economists in the past twenty years or so in violent conflict and its aftermath in developing countries has made many advances but has devoted very little attention to labour markets'. As a result, we still know relatively little about how conflict affects labour markets and how these changes affect growth and people's livelihoods. This can be accounted for partly by the complexity involved in understanding labour markets and by the challenges associated with making sense of their social and political characteristics. Yet, this should not act as a deterrent. Work by Cramer and others demonstrates why labour markets are so important for job creation programme outcomes, and, given present enthusiasm for such interventions, **there is a real need for further research into conflict-affected labour markets and people's relations to them.**

This review has identified three themes that appear potentially important to understanding labour markets and implications for job creation programmes in conflict-affected situations.

The first is displacement. War can result in sometimes massive movements of people within and across national borders, reordering the spatiality of both population and economic activity. At the most basic level, displaced persons generally experience poor labour market outcomes (e.g. Calderón and Ibáñez, 2009), either engaging in low-return forms of employment or finding themselves unemployed. However, there seem to be heterogeneities and nuances to this general finding, particularly along gender lines – some research finds that displaced women adapt better to new (urban) labour markets, earning a higher proportion of household income (Adam, 2008; Calderón et al., 2011), although it is not clear that these changes do much to improve women's social and economic empowerment. The effects of displacement on labour market outcomes for the host population are similarly diverse: while some host individuals suffer from the increase in labour supply (i.e. more competition), others benefit from an expanded market for goods and services. In many cases, it is also likely that such heterogeneous outcomes will be underwritten by ethnic or social dynamics (Cramer, 2010; Walraet, 2011), and some evidence suggests negative effects may be more pronounced for informal workers, that is, the most vulnerable (Calderón and Ibáñez, 2009).

The second theme is informality. Quantitative and qualitative research suggests that conflict leads to expansions of informal economies and labour markets, possibly via the mechanism of displacement and resultant demographic changes to populations in particular geographic areas (Adam, 2008; Aysa-Lastra, 2011; Beall and Shutte, 2006; Calderón and Ibáñez, 2009; Iyenda, 2005; Pantuliano et al., 2011; Pavanello et al., 2010). Informality appears most pronounced in urban contexts, but this may owe to a locational bias in the existing research. In addition, there is some debate around the extent to which rural forms of self-employment and subsistence agriculture can be considered formal or informal. The size of informal economies and the number of people they employ pose various challenges to the design of job creation programmes, which have traditionally focused on increasing formal employment. Many of those engaged in the informal sector lack the skills and social know-how to compete for more formal jobs, meaning formal employment creation programmes exclude large numbers of potential beneficiaries. Furthermore, the advantages of informal employment have been well documented, and it may well be the case that irregular cash-in-hand work is the most appropriate income generation strategy for many households – particularly those with large, young families.

The third theme is variation between rural and urban areas. As mentioned earlier, displacement is increasingly moving along urban trajectories. The full range of implications of this is unclear, but it appears that informality increases and households face considerable vulnerabilities. Displacement also affects communities of origin, for example through reducing the level of self-employment (Bozzoli et al., 2011b). It is likely, however, that this trend towards the urban has consequences for understanding labour markets and the design of job creation programmes. As Ibáñez and Moya (2009: 50) argue, agricultural abilities are not highly valued in urban labour markets, which might help explain why asset loss features so strongly as a characteristic of urban displaced households in developing countries with large agriculture sectors. Thus, the *kind* of job employment creation programmes offer matters; mismatches between job type and skillset will likely do nothing to reduce unemployment and the vulnerabilities associated with informal employment.

While these three themes offer possible routes through which to explore labour markets and violent conflict, they also serve to further highlight the complexity of the issue at hand. They demonstrate that nuance, heterogeneity and context are all major parts of the story, and that 'labour market and economic policy, if they are to be part of efforts to reduce violence, cannot be reduced to policies designed simply to maximise the number of work opportunities available' (Cramer, 2010: 2).

The fact that labour markets are complex systems does not mean job creation programmes will inevitably fail. That said, two recent reviews of the evidence on employment programmes in conflict-affected situations suggest knowledge of their effectiveness is largely unknown.

The first is a rapid mapping study by Walton (2010), which reviews donor approaches to addressing armed violence through youth job creation programmes. The central finding is that, although such approaches have become more nuanced and sophisticated – attempting to address a range of factors that cause social exclusion by combining with other forms of intervention, such as training in conflict resolution – both the 'theoretical and the empirical cases for using youth employment programmes as a stand-alone tool for reducing violent conflict are extremely weak' (Walton, 2010: 1). Walton (2010: 10–11) identifies the main gap in the current literature as 'a lack of critical analysis of the impact and broader social, economic and political effects of youth job creation programmes [...] This gap is closely related to a failure to thoroughly articulate and examine the mechanisms via which job creation programmes impact upon local or national-level conflict.'

The second is a recent systematic review into the impact of employment creation on stability and poverty reduction in fragile and conflict-affected situations (Holmes et al., forthcoming). This identifies just seven relevant studies, the majority of which either present anecdotal evidence or are based on secondary literature reviews. Further, the authors state that 'the fragile states documentation is based on the intuitive assumption that employment creation will promote poverty reduction and stability' – an assumption, it seems, that the empirical evidence does not substantiate. The central finding of these two reviews is fairly damning – we simply do not know what the impacts of job creation programmes are. Assumptions, not evidence, are guiding policy.

#### 4.3.5 Training

Training is an example of an intervention intended to promote greater 'employability' of individuals. By aiming to contribute to an improved supply of suitable labour, it serves as a complement to other types of intervention designed to increase the demand for labour. In addition, training is often promoted in fragile and conflict-affected situations, particularly in post-conflict situations, as a means of getting people into jobs, especially in terms of reintegrating youth and ex-combatants and rebuilding livelihoods.[23]

There are various different kinds of training, including:

- Adult education: literacy, numeracy
- Basic/personal skills: financial literacy, communications, health care
- Vocational/technical training
- On-the-job training

Basic education for adults is often required as a first step in fragile and conflict-affected situations, especially for young people, as literacy and numeracy levels are often very low. During periods of conflict or instability, people often also miss out on the opportunity to learn marketable skills that can help in securing long-term employment (see Smith et al., 2009 for a discussion of the benefits attached to the provision of adult education and personal skills training in fragile and conflict-affected situations).

A review of the donor case study literature on this topic suggests a number of key issues that should be considered in the design and implementation of training programmes, many of which are also true more generally, not just in fragile and conflict-affected situations:

- Training programmes are most likely to be useful in post-conflict or 'turnaround' countries, where skills are more likely to become a binding constraint on employment. In these situations, training programmes can be implemented early on as part of efforts to promote reconstruction and create a peace dividend, or later on as a component of longer-term private sector development initiatives.
- Where labour demand in formal markets remains weak, as is likely to be the case in many fragile and conflict-affected situations, building entrepreneurial skills that will facilitate self-employment may be worthwhile. Such training may need to be accompanied by other forms of assistance to overcome equally binding constraints, such as providing access to finance and information about local market opportunities.
- Design should be informed by analysis of potential constraints associated with implementation in fragile and conflict-affected situations, such as education gaps, ethnic tensions, weak state capacity, insecurity and political economy concerns.

The literature on training interventions in fragile and conflict-affected situations highlights a number of problems experienced to date.

Evidence from a number of vocational training programmes shows there is often a **mismatch between training and jobs**, with a failure to connect training to current and future demand on behalf of employers, subsequently leading to a failure to meet high expectations of ex-combatant participants (McKibben, 2011; UNDP, 2008). To select from an abundance of examples, only a quarter of the ex-militia forces trained in the New Beginnings Programme in Afghanistan secured long-term employment, with one ex-combatant noting that the programme 'promises things [but] no one gives us a job [and] we are all so disappointed' (Bhatia and Muggah, in McKibben, 2011). Similarly, only 13% of ex-combatants surveyed in Colombia who underwent a vocational training programme were subsequently employed (Arjona and Kalyvas, in McKibben, 2011).

Furthermore, across the programmes reviewed by McKibben (2011), there was a **general failure to attend to psychological problems**, and training for women ex-combatants, when conducted at all, was intended to support reintegration into domestic life but not the workplace. Failure to address mental health problems is especially significant in northern Uganda, given that 25% of producers and traders there said they would not employ someone with mental health problems, yet 25% of male youth experience moderate to high levels of emotional distress, and ex-combatants are 50% more likely to

[23] A recent report defines reintegration as 'the process by which ex-combatants and other beneficiaries acquire civilian status and (hopefully) gain sustainable livelihoods and income' (UNDP, 2008: 66).

experience emotional distress than those not previously involved in the conflict (ibid.).

In addition, **training programmes must be targeted appropriately**. The World Bank (2010) argues that such interventions have, in the past, tended to focus too much on people with relatively high levels of education and skills. Grossman et al. (2009) argue that training schemes should be adapted to post-conflict environments by making them low cost and easy to access in order to absorb the large number of people that may require retraining. They explain that, within a post-conflict state, skills development should focus on supporting immediate livelihoods and basic needs in the post-conflict recovery phase; allow the economic and social reintegration of conflict-affected groups; help with the long-term recovery and development of the country; and build skills required by the private sector.

Grossman et al. subsequently argue that formal skills development courses are inappropriate, as they are usually based within a structured, officially approved system where entrance is regulated and which provides access to an officially recognised qualification. This kind of training is less appropriate for conflict-affected contexts, where formal sector employment is usually difficult to find. In addition, the costs of these kinds of formal training courses are high (on a per capita basis), thereby limiting their reach. Instead, the authors recommend the provision of training courses, which have a lower educational entrance requirement and which are flexibly organised to meet the needs of the trainees.

Not all (vocational) training programmes in fragile and conflict-affected situations, however, have been unsuccessful. For example, in northern Iraq, FAO and the UN Industrial Development Organisation (UNIDO) implemented technical and business management training that led to 61.3% of beneficiaries unemployed before training gaining employment or self-employment by the time of the evaluation (UNIDO and FAO, 2009). Another important dimension of this project was that it enhanced capabilities in the Ministries of Industry and Agriculture, thus potentially contributing to increased project sustainability and institutional strengthening. Meanwhile, in Aceh, a GTZ vocational training programme achieved a major impact by controlling for the factors that often contribute to the vocational training–jobs mismatch, as Box 8 outlines.

**Box 8: Bridging the training–jobs divide – GTZ's vocational training programme in Aceh**

From 2006 to 2009, GTZ ran a vocational training programme in Aceh. This used multiple partnerships to deliver high-quality training, also setting up a cooperative to ensure graduates were employed on completion of their training. The business covered everything from manufacturing, within the cooperatives' own textile factory, right up to retail, in export as well as domestic markets.

A total of 98 women, half of whom were ex-combatants, were provided with a three-month training course at the International Garment Training Centre in Java; 83 returned to Aceh and, with the support of GTZ, set up a textile cooperative and factory. Each woman now earns close to Rp 1 million per month, a very high salary in comparison with the range of averages in Aceh's different districts ($71–$10 per month).

Central to the programme's success was that it controlled for the factors that contribute to the vocational training–jobs mismatch. GTZ conducted labour market research, ensured community buy-in by making sure half of those trained in Java were not ex-combatants, secured support from local government in Aceh (ensuring public backing and removing any negative links to the Free Aceh Movement), maintained effective monitoring and evaluation to facilitate sustainability and delivered high-quality vocational training and business support through partnerships with a number of private firms and banks, both locally and internationally.

Source: McKibben (2011).

## 4.4 A need for conflict-sensitive programming

The state, the private sector, donors, humanitarian agencies and international financial institutions can play formative roles in shaping conflict dynamics, and there is a strand of literature that examines the ways in which programming can be 'conflict sensitive'. Livelihood programmes can risk having negative impacts on conflict if these dynamics are not overtly addressed through thorough political economy and conflict analyses (Alinovi et al., 2007).

In conflict, assets can become liabilities as they may place the owners at increased risk of attack (Jaspars and Maxwell, 2009). In this vein, livelihoods analysis in Angola, Serbia/Montenegro, Sudan and Zimbabwe has found that those most at risk of livelihood disruption as a result of conflict may not necessarily be the poorest people; rather, it is often those who have something to lose who face the greatest risk (USAID, 2005). For example, in Southern Sudan in 1991, Nuer attacks on the BorDinka had a much more devastating impact on rich households than on poor ones, as the almost exclusive reliance of rich households on cattle and their lack of alternative livelihood strategies meant that not only was the psychological impact of the cattle being killed more severe, but also they did not have the skills to adapt their livelihood strategy, by fishing or foraging for wild foods, for example (ibid.). Therefore, (re-)stocking with less valuable assets, or those less prone to theft, can be an important intervention in conflict-affected situations. For example, the Common Humanitarian Fund (CHF) provided chickens to displaced people in South Darfur, and in the Philippines Oxfam and CRS provided ducks, goats and geese, which were seen as low-value, easily transportable assets (Jaspars and Maxwell, 2009).

Further, some livelihood programmes in fragile and conflict-affected situations have sought to use the intervention to build trust and cohesion between previously antagonistic groups. In Kosovo, for example, Mercy Corps supported businesses by developing multi-ethnic workforces, procurement and business links between ethnic groups, and events, such as agribusiness conferences, helping bring together ethnic groups working in the same industry (UNDP, 2008). These initiatives have been successful in enhancing inter-group linkages, with Kosovar-Albanian dairymen now supplying milk to Serb cheese manufacturers, and Kosovar-Serb and Kosovar-Albanian beekeepers agreeing to market honey under a single multilingual label (ibid.). Further, external actors can contribute to the alleviation of conflict and fighting at particular times and in particular places: recent evidence from Darfur suggests that a greater presence of international NGOs is associated with higher levels of security (Alix-Garcia et al., 2011).

However, livelihood programmes implemented by aid agencies can also risk having negative impacts in terms of conflict if they are not overtly addressed, whether because of a lack of in-depth political analysis or a concern for safeguarding humanitarian principles (Alinovi et al., 2007). In the Nuba Mountains of Sudan, for example, an external review team reported that UN Development Programme (UNDP) support of a central government programme to attach resettled returnees to their new areas through the promotion of agricultural development displayed a striking failure to understand local realities and amounted to *de facto* accommodation with the government's disaster-producing policies (Pantuliano, in Alinvoi et al., 2007).

The channelling of assistance to forced migrants through camp institutions, although an understandable logistical choice, often leads to the clustering and containment of large numbers of vulnerable people, atrocities against whom have been documented in several settings (Lischer, 2005; Polman, 2010). Encampment may also be related to the strength and resilience of insurgent bodies, as '[a]rmed groups frequently use IDP and refugee camps as a source of supply and recruitment' (Aspa, 2011: 17). Humanitarian assistance in camps and war zones more generally has been linked with warlord strategies and processes of rent seeking (Duffield, 1998; Weiss and Collins, 2000), and modelling by Blouin and Pallage (2008) suggests that the way relief aid is delivered influences warfare through effects on looting and army size.

Another dimension of conflict-sensitive programming is the integration of livelihoods with protection programming or vice versa, strategies that have been trialled by a number of humanitarian agencies in recent years, particularly in Darfur (Jaspars and O'Callaghan, 2010a). In Darfur, by engaging with local commanders, the Danish Refugee Council was able to negotiate access to market for women and children, as well as unarmed men, thus helping people realise the opportunities of markets while ensuring their protection and freedom of movement (ibid.). Another, livelihoods protection intervention in Darfur, and perhaps the most widely known, and which has been subjected to review. is the use of fuel-efficient stoves. A review by USAID found that these reduce consumption of firewood, with fuel savings of 30–60%, and have a positive impact on food security by reducing income spent on firewood and sale of food aid, but stated that they do not provide a full solution to the protection challenge as women continue to collect firewood as a source of income, to accompany others for social and security reasons and because firewood collection is commonly combined with the collection of other natural resources (Jaspars and O'Callaghan, 2008).

The private sector can also play a part in the dynamics of conflicts, although the literature on this is much less developed. In order to carry on doing business, private companies may be forced into paying for security or market access (Dhaka and Subedi, 2006), thereby involuntarily funding armed groups. Some companies seek out opportunities created by war economies, such as arms procurement, and therefore play a more knowing role in sustaining conflict. International companies have been accused of contributing to the buttressing of rebel groups and the continuation of violence in various war zones, such as eastern DRC (Global Witness, 2009). The actions of businesses can also support militaries: as one example, Korf (2003, in Jaspars and O'Callaghan, 2010a) describes how Muslim traders in Sri Lanka formed alliances with the military in order to bypass checkpoints and gain access to markets.

# 5 Creating enabling environments: policies, institutions and (economic) processes

States and aid agencies can support livelihoods and promote economic activity in fragile and conflict-affected situations through effective programming (as discussed in Section 4), but their actions in a broader sense can also determine outcomes. 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.

This section is split into three parts, all of which are bound together by a broad thematic focus on enabling environments. The first looks at the kinds of policies implemented by country governments that shape the environment in which individuals, households, communities and businesses operate, and which can either support or undermine recovery and development. The second highlights the role of informal institutions as important mediating factors in both people's experience of interventions as well as processes and patterns of economic activity. The third provides a more in-depth discussion of the kinds of approaches external actors take and promote to generate economic growth at the country level, and, in so doing, highlights a number of problems with current economic engagement.

## 5.1 Making livelihoods and doing business: what governments can do to build enabling environments

Beyond the implementation of specific interventions, the kinds of policies pursued and regulations enacted have major implications for the activities of individuals, households and businesses, across both fragile and stable contexts. Furthermore, governments can also become complicit in the creation of unfavourable structural conditions when they fail to implement appropriate policies. For example, through longitudinal household research in three cities in Afghanistan, Beall and Schutte (2006) illustrate how a lack of government planning in urban areas has excluded poor households from basic services.

This sub-section focuses on two particular areas shaped by government actions**: rural livelihoods, natural resources and land;** and **private sector activity.**

### 5.1.1 Rural livelihoods, natural resources and land

Rural livelihoods can be shaped quite dramatically by a state's agricultural policies. Wiggins and Jackson (2007) conducted important modelling work to try to predict the social and poverty impacts of agricultural reforms in Sierra Leone, suggesting that a 'genuinely effective and revitalised extension effort' could lead to an average rise in yields of rice of 15 per cent across the country, which would lead to over 80,000 people being raised out of food poverty, and almost 50,000 being raised out of poverty (Wiggins and Jackson, 2007: 31). Livestock policies can also have major impacts on pastoralists' ability to pursue their livelihoods strategies. In the Somali region of Ethiopia, for example, there is a wide array of formal and informal taxes, operating at multiple levels, that have an impact on pastoralists' terms of trade in bringing their animals to market (Catley and Iyasu, 2010). Similarly, government policies relating to natural resources, particularly in post-conflict situations, often have important impacts on people's ability to continue to pursue their livelihoods strategies. As Peluso and Watts argue, it is important to consider the ways in which 'specific resource environments (tropical forests or oil reserves) and environmental processes (deforestation, conservation, or resource amelioration) are constituted by, and in part constitute, the political economy of access to and control over resources' (in Pingali et al., 2005: 17).

Post-conflict governments, sometimes with support from international donors, often seek to pursue natural resource extraction through industrial concessions, including logging, as a way of energising the economic recovery process (Harwell, 2010). However, at times this comes at the expense of smallholder access and the health of the forest, which is often vital to local livelihoods, as in Mozambique and Cambodia (ibid.).

Agricultural, land and natural resource policies are among the most prominent examples of how government policies shape livelihoods. Eyasu and Fevera (2010) discuss how, in Ethiopia, donors and policymakers sought to 'develop' the 'underused' pastoral lands by implementing large-scale agro-industrial programmes, such as commercial sugar plantations, and delineating national parks and ranches for wildlife conservation. Household surveys revealed that 100% of the Karrayu and 79% of the Borena sampled had lost their original grazing and watering resources as a result of these large-scale programmes, and now face additional risks of having to locate new ones. For example, the introduction of sugar plantations has meant the Karrayus are now forced to travel up to 250 km in search of water during the dry season, as opposed to 50 km prior to the scheme. Pavanello and Levine (2011) similarly discuss the role of government-imposed limits on pastoralism in relation to recent droughts in the Horn of Africa.

Governments can also close down traders' access to markets and demand payment of prohibitively high taxes. An Emergency Market Mapping and Analysis carried out by Mercy Corps and NRC (2011) in South Sudan shows that markets for okra seeds, iron roof sheets and metal for *malodas* have been disrupted not by the conflict over the disputed region of Abyei directly, but by Khartoum's closure of trade roads to and from the north. Furthermore, Pantuliano et al. (2011: 6) observe 'crippling taxation regimes', both formal and informal in nature, in the Sudanese urban economies of Khartoum, Port Sudan, Nyala and Juba.

The role of local government and policy enforcement at the *local level* is also key. Kurosaki (2008) uses micro data from 500 households in rural Myanmar to investigate the impact of economic policies on agricultural productivity and rural incomes. The government exerted control over farmers through a number of means: land ownership; setting a procurement quota for paddy; and the threat of removing tillage rights if farmers deviated too far from the government's crop plans. Many farmers' livelihoods were undermined as they were forced to grow too much paddy and not enough of the more lucrative crops; Kurosaki's simulation results show that the consequent loss in rural incomes was 'not negligible'. Moreover, it is suggested that the ability of farmers to bypass government policy and diversify crop choice was dependent on the level of control of local administrations.

### 5.1.2 Doing business: policies to promote private sector activity

We know there are often particular bureaucratic obstacles to private sector activity in conflict-affected situations. The latest Doing Business report (IBRD and World Bank, 2012) tells us how the average days needed to start up a business are 68 in Angola (119 in 2008), 65 in DRC (155 in 2008) and 105 in Haiti (202 in 2008), compared with 6 in the US and 2 in Australia; how the number of tax payments per year totalled 46 in Haiti and 33 in Liberia compared with 9 in the Netherlands and 11 in the US; and how in Chad it costs $8,525 to import a container from across the border whereas in China it costs just $545. More generally, out of the bottom 25 countries in the Doing Business rankings, 24 are classified as fragile or conflict-affected – up from 20 a few years ago (data in Peschka, 2011) (for more see Section 2.5.2)

These are understandable deterrents to the start-up of new firms and the expansion of the private sector in conflict-affected countries. But they can be addressed. Governments – often in partnership with other actors – in conflict-affected countries have effectively demonstrated their will and capacity to engineer changes in the business environment. For example, of the 11 economies that made the biggest improvements in their ease of doing business scores in 2010/11, with improvements in three or more areas of regulation, more than half are countries classified as fragile and conflict-affected situations according to Table 5 in Annex 1 (IBRD and World Bank, 2012).

Such improvements can be driven by policy reforms designed to promote greater private sector activity and economic growth. **Investment climate reforms** include policies designed to reduce risks and costs, and to create an enabling environment for business, so as to underpin market development across any viable sector. They can focus on any number of areas, including macroeconomic and political stability; the creation of property rights; regulatory and legal reforms; competition and industrial policy; access to finance; infrastructure development; anti-corruption measures; and skills development. Such reforms are usually considered necessary for creating what might be termed the main 'ingredients of growth', around which a fairly broad degree of consensus exists. For example, DFID (2008) cites eight essential conditions for strong growth: macroeconomic stability; security and protection from predation; competitive markets; financial capital; human capital; connectivity; openness to trade and investment; and increased agricultural investment and productivity. The 2008 report by the Commission on Growth and Development drew a number of broadly similar conclusions regarding the characteristics likely to contribute to growth: engagement with the global economy; leadership and governance; economic security; macroeconomic policy; public investment; environmental management; labour markets; and urbanisation (Commission on Growth and Development, 2008).

**Public financial management (PFM) reforms** are also considered key. Recent research by Fritz et al. (2011) finds that PFM reforms can be made under difficult circumstances and can progress relatively quickly, particularly with high levels of external support and not necessarily with high levels of domestic revenue (see, e.g., the cases of Afghanistan and Sierra Leone). Important factors shown to increase the effectiveness and rapidity of PFM reforms include high-level political commitment by the government; extensive donor involvement; reform of the legal framework; and quick automation of PFM systems.

Countries experiencing or emerging from conflict tend to face a range of challenges to economic recovery and development. In such contexts, knowing where to focus efforts and channel (often limited) resources can be particularly problematic. One way of identifying priorities is to draw on the local expertise of businesses, as was the case in post-conflict Bosnia and Herzegovina (see Box 9).

**Box 9: The Bulldozer Initiative in post-conflict Bosnia and Herzegovina**

Bosnia and Herzegovina's 2002 'Bulldozer Initiative' is viewed as a successful example of an investment climate approach that was effective in reducing red tape in a post-war environment. The scheme was designed to mobilise private sector actors, particularly local businesses, by asking them to identify impractical business regulations and propose legislative changes. The 50 most practical suggestions out of the 250 submitted were pushed through parliament, and the subsequent reforms were all introduced within 200 days. Not only did the initiative help improve conditions for local businesses, but also it opened up channels of communication between the private sector and government.

Sources: Herzberg (2004); GTZ (2006); MacSweeney (2008).

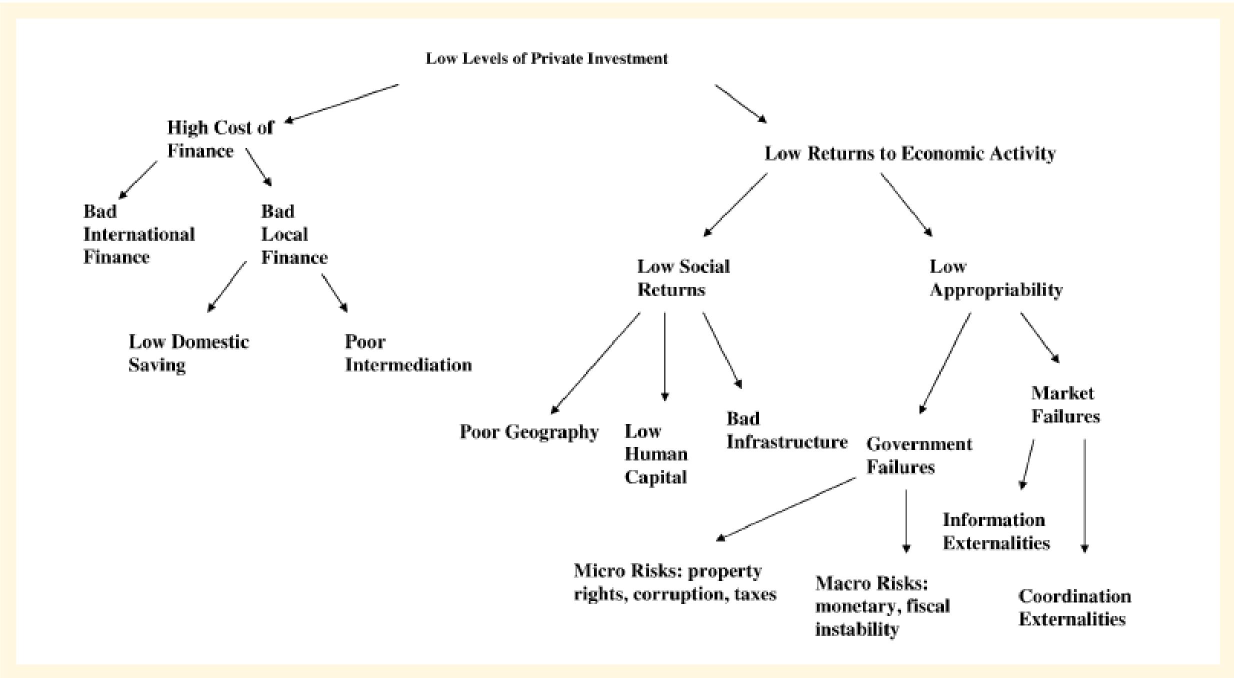
Another approach is to 'diagnose' an economy's weaknesses and 'prescribe' appropriate remedial action by conducting a **growth diagnostics** exercise.

Growth diagnostics are a relatively new approach to working out policy priorities for promoting economic growth in developing countries. Pioneered by development economists Ricardo Hausmann, Dani Rodrik and Andres Velasco, growth diagnostics exercises (sometimes referred to as the HRV approach or HRV methodology) 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 formulated and implemented.

As Hausmann et al. (2005a) explain, the growth diagnostics methodology can be conceptualised as a decision tree (Figure 3). The researcher starts by asking what keeps growth low in a particular country or region, then asks why this might be the case. This process continues until the fundamental problem(s) or binding constraint(s) are identified (e.g. inadequate domestic savings, high cost of financing domestic investment). This 'process of elimination' is aided by a range of secondary data – firm surveys are one of the most prominent kinds of data, but growth diagnosticians sometimes undertake fieldwork of their own in order to generate relevant, and probably previously missing, primary data (e.g. Ulloa et al., 2009 in DRC).

In reality, multiple factors limit growth in conflict-affected, and stable, countries. However, research by Hausmann et al. (2005b) suggests that achieving growth accelerations – which occur when economic growth of at least 3.5% per capita is maintained for a period of at least eight years – do not require a 'long laundry list' of reforms. Growth diagnostics are thus about concentrating resources on one or two particular binding constraints and reforming these effectively. This is seen by some as a welcome antidote to the broadness of the classic Washington Consensus policy package, which recommended high numbers of wide-ranging economic reforms – often producing mixed and modest impacts (at best) (Rodrik, 2006). In line with this, growth diagnostics privilege 'best fit' over 'best practice' blueprint approaches, taking context and circumstance seriously.

**Figure 3: The growth diagnostics decision tree**




Source: Hausmann et al. (2005a).

But despite the increasing number of growth diagnostic exercises being carried out, and the enthusiasm (in some quarters) with which the approach has been greeted, growth diagnostics are not completely free from criticism. Although agreeing that growth diagnostics 'provides a well-structured methodology to think about why some countries do not appear to take off, and forces policy makers to seriously think about what prevents a poor country from growing faster', Felipe and Usui (2008: 6) argue that the methodology must be improved, identifying ten issues of concern, including a treatment of binding constraints as static (i.e. failing to consider the way binding constraints evolve or change in the future) and a focus on singular causes of low growth when factors may in fact be multiple, overlapping and interacting. To their list, we can add problems of data availability and reliability, a particular issue in conflict-affected areas (see, e.g., Sen and Kirkpatrick, 2011 on Kosovo; Ulloa, 2008 on Afghanistan; Ulloa et al., 2009 on DRC).

However, the process can also produce useful insights, and it has not yet been surpassed as an analytical framework. DFID has been involved in growth diagnostics in several fragile and conflict-affected countries, including Afghanistan and Sierra Leone and concludes that the results are valuable and that it would be useful to see how the model could be adapted for use across different contexts of fragility and conflict (DFID, 2009).

To our knowledge, a total of 33 growth diagnostics exercises have been carried out to date. Of these, 12 focus on countries 'officially' defined as fragile or conflict-affected (if we take the broadest, combined list of 66 fragile and conflict-affected countries – see Table 5 in Annex 1). One regional growth diagnostic exercise, on Aceh in Indonesia, has clear conflict dimensions, and therefore also merits inclusion. Thus, a total of 13 growth diagnostics exercises have been conducted on conflict-affected countries and situations to date. These include Aceh (Indonesia); Afghanistan; north-eastern Afghanistan; Bangladesh; Cambodia; Colombia; DRC; Kenya; Kosovo; Nepal; Pakistan; Togo; and Uganda. Table 6 in Annex 2 presents key information on each of these growth diagnostics exercises, including the kinds of binding constraints identified and suggested policy recommendations.

Our preliminary analysis of the growth diagnostics reports for fragile and conflict-affected situations reveals a number of findings.

First, the private sector is seen as crucial. That every growth diagnostics exercise focuses its analysis and recommendations on facilitating private sector activity is unsurprising, given the inherent design of the model. But for an analytical approach that claims to privilege context and best fit solutions, the dominance afforded to the private sector is striking. Reports regularly discuss government action, but usually in relation to creating furtive conditions for business and investment. For example, the Uganda growth diagnostics report recommends that the government maintains stable, market-friendly and private sector-oriented policies, and concludes that 'The public sector should continue to leave prices to markets, and to focus the role of the State on providing high quality public goods, leaving product discovery to businessmen' (World Bank, 2007: 7).

Second, exercises that focus their analyses on particular sub-national regions of conflict-affected countries (e.g. districts or provinces) are in the minority. Exceptions include Aceh in Indonesia (World Bank, 2009a), north-eastern Afghanistan (Ulloa, 2008) and five provinces in DRC (Ulloa et al., 2009). As both economic activity and conflict tend to occur heterogeneously across space, growth diagnostics exercises that take an aggregate analytical approach may be less useful in terms of illuminating issues surrounding growth in conflict-affected situations than more geographically focused ones. The report on DRC, for example, concludes that 'DRC is an extremely heterogeneous country. Therefore, any growth-oriented poverty reduction efforts must be based in and stem from local realities, and designed with local authorities' (Ulloa et al., 2009: 55).

Third, problems surrounding data availability and access to information, people or field sites are common in growth diagnostics exercises for conflict-affected countries. For example, as Ulloa (2008: 59) points out:

> Paucity of data and the post-conflict situation makes it difficult to conduct a thorough study of growth barriers in Afghanistan and the dominance of the illegal (opium) economy inhibits an accurate holistic understanding of the Afghan economy and its dynamics. Absence of primary data impeded efforts to conduct more robust empirical tests that would more accurately support our findings, and therefore their interpretation and the rankings proposed should be taken with caution.

Fourth, growth diagnostics in fragile and conflict-affected situations are largely unable to capture informal economic activity and incorporate it into their analyses. Given that informal economic activity defines large parts of conflict-affected economies, this is problematic and may lead to policy recommendations that exclude significant proportions of the population.

Fifth, the agriculture sector is found to be central to growth prospects and poverty reduction in a number of conflict-affected countries, including Cambodia, DRC, Kenya and Togo.

Sixth, it is clear that the Hausmann et al. (2005a) growth diagnostics framework is fundamentally premised on normative Weberian ideas about how a state should look and function. Although subordinate to market forces, governments should be strong and effective, as encapsulated by the Kenya report: 'The growth strategy presented in this report implies a *strong, positive, and enabling role for the government*' (World Bank, 2008: xx, emphasis in original). Assumptions about political orders are made even more explicit by the Afghanistan report: '[The policy recommendations] demand strong political will and leadership, as they relate in a broader sense to the centre-periphery relationship and the central government capacity to force sub-national actors to comply' (Ulloa, 2008: 61). Such conclusions leave little room for informal governance structures or hybrid political orders: power must be centrally located and effectively projected. The reality is often quite different.

Finally, growth diagnostics exercises generally, and quite clearly, demonstrate that strong growth rates can and do occur on conflict-affected countries – and their analyses provide a good level of detail on why this might be the case.

## 5.2 Institutions as mediating factors

What formal public authorities do and do not do is of great importance. Government policies have the potential to both constrain and enable people's pursuit of effective livelihood strategies. Yet, the effect of government actions is not straightforward, and often not experienced 'directly', so to speak, by those on the ground. Social, economic and political interactions are structured by informal 'rules of the game' created, communicated and enforced outside of officially sanctioned channels (Helmke and Levitsky, 2004; see also Utas, 2012 for discussions on how power and authority are often concentrated outside the apparatus of the state in conflict-affected settings). Institutions and informal social structures are often difficult for external actors to identify (and even harder to understand), and when aid agencies or governments talk about building and strengthening institutions in fragile situations, what they are usually referring to is transplanting a standardised set of *organisations* designed in accordance with liberal democratic principles (Ottaway, 2003). But even where aid agencies are aware of informal institutions and the impacts these have on livelihoods, they may not have the capabilities to influence the complex social, political, and economic process at play. For example, Longley et al. (2006) cite the difficulty for aid agencies in trying to engage the informal structures – nodes that bring together a variety of community, political and military actors – that affect access to water and, in turn, livelihoods in Afghanistan.

Engaging informal institutions may be challenging, but in many settings a failure to do so may be problematic, particularly where informal institutions are highly influential. Yet, programming designed overwhelmingly with the state in mind continues to dominate in many situations. One clear lesson emerging from Pain's (2012: 46) review of the evidence on livelihoods and service delivery in Afghanistan, for example, is that:

> [T]he state-centricity of the reconstruction programme and the focus on formal institutions have led to a profound neglect of informal processes and institutions which continue to hold Afghanistan together, support regional social orders and maintain village republics and the household. Not only is 'informality' seen to be a problem, but also it is poorly understood, particularly in the way it becomes deployed as 'formal' organisational structures are layered over it.

The role of informal institutions in shaping patterns of economic activity and growth has also been recognised.

Various methodological approaches have been used to investigate the relationship between informal institutions and growth. Seidler (2011) uses a qualitative approach to explore the influence of informal institutions on members of the Kanuri, a large ethnic group in north-eastern Nigeria, finding that 'the norms stemming from a pattern of patron-client relationships are still prevalent and effectively shape economic behavior' (ibid.: 17). Indeed, while such institutions may play an important role in regulating social interactions and providing stability to Kanuri society, they simultaneously produce 'sub-optimal economic outcomes' for certain groups (ibid.: 17). In particular, the persistence of informal norms connected to land rights (and the linking of these with contemporary civil rights) prevent 'non-indigenous' individuals from accessing land as well as other services (ibid.: 14). Meanwhile, Steer and Sen (2008) examine the case of Vietnam and find that a rapid expansion in the country's private sector from the late 1980s onwards can be explained by explained, at least in part, by the use of relational contracts and networks. Indeed, their results suggest that, more broadly, informal institutions may remain important as 'mechanisms of risk management' as economies develop through transitional periods (ibid. : 13).

There are also examples of econometric analysis into this relationship. Knowles and Weatherston (2006), for example, draw on the work of North (1990) and the approach developed by Tabellini (2005) to study the potential of informal institutions to act as 'deep determinants' of income levels. Using data from World Values Surveys to measure a country's level of 'trust' (i.e. how trusting people are of others in society), 'respect' (i.e. the extent to which people feel they should be tolerant towards and respectful of others) and 'control' (i.e. the extent to which people believe they have control over their own lives), for a sample of 50 developed and developing countries, the authors find informal institutions to be just as important a 'deep determinant' of income levels as are formal institutions.[24] Dobler (2009) offers econometrically derived conclusions along similar lines.

[24] The authors recognise that finding good proxies to measure informal institutions is difficult.

Many studies into the relationship between informal institutions and economic growth - in both stable and volatile contexts - call for further research into the subject, indicating a weakness of the evidence base in this area.

Just as informal institutions mediate the experience of interventions, laws and policies at the local level, so too they shape the dynamics of people's responses to conflict. Qualitative research by Adam (2008) in Ambon, Indonesia, demonstrates how, although women were comparatively better at generating incomes through informal sector employment during conflict, once security returned their livelihood activities shifted back to 'inside-oriented roles' as the men returned to their 'traditional' function as wage earners. Changes in gender relations within the household as a result of women's shifting income generation activities during conflict were thus limited. Research by Abdelnour et al. (2008) in Juba, Sudan, further demonstrates the gender-specific outcomes of responses to conflict: IDPs became increasingly dependent on the income women generated tilling land on the city outskirts; part of the rationale for this was that, while women might be raped and subjected to physical violence, men were more likely to be killed by rebel forces.

## 5.3 External economic engagement in conflict-affected situations

It is generally believed that, for economic activity and growth to occur, the right set of conditions– an enabling environment – must first be in place (see UNIDO, 2008). Ultimately, much of this comes down to what domestic actors, and notably the state, do. Nonetheless, external actors have been trying for years to stimulate growth in fragile and conflict-affected situations, either because growth is seen – rightly or wrongly – to be good in itself or because it is viewed as a means to other laudable ends, such as poverty reduction or stability.

This sub-section focuses on four closely interrelated areas of external engagement. We first provide a brief overview of the (largely econometric) **evidence on aid effectiveness** – or, the macroeconomic and growth impacts of aid. We then discuss the **policy positioning of growth as a peace-building tool**, before exploring some of the problems and tensions underlying current economic engagement in conflict-affected situations. In particular, we focus on the debates on **timing and sequencing**. To close the sub-section, and Section 5 as a whole, we explore the **politics of growth** in conflict-affected countries, emphasising the importance of power, relationships and bargaining in understanding economic processes, and highlight the persisting role of **neoliberal economic blueprints** in defining external engagement.

### 5.3.1 Aiding growth?

Let us first look at the question of whether external aid has contributed, or does contribute, to economic growth in fragile and conflict-affected situations. The literature on this is dominated by cross-country econometric studies (see Section 2.4.1), and, although extensive, the evidence is highly contradictory.

A number of studies have found that aid can benefit (or at least 'do no harm' to) post-conflict economies: Collier and Hoeffler (2004) report that aid is most effective when introduced between three and seven years after the 'end' of war, because of a doubling of absorptive capacity; Demekas et al. (2002) find that post-conflict reconstruction aid does not necessarily lead to a contraction of a country's tradable goods sector; and Elbadawi et al. (2007) find a non-significant or negative long-term correlation between aid and real exchange rates, suggesting there is little *prima facie* evidence for Dutch disease.

On the question of absorptive capacity, studies have also found that aid inflows to post-conflict countries are constrained by saturation points. For example, Collier and Hoeffler (2004: 7) estimate the saturation point during post-conflict to be 5.59 times the country's Country Policy and Institutional Assessment (CPIA) score, although improvements in performance here by governments have been found to exert large effects on absorptive capacities and the ability of aid to impact growth (McGillivray and Feeny, 2008). In addition, the finding that the initial post-conflict years are not responsive to aid suggests conventional donor policy built around 'substantial surges of aid flows' needs rethinking (Elbadawi et al., 2007).

However, there is considerable disagreement about the impact of post-conflict aid. For example, Suhrke et al. (2005) 'retest' Collier and Hoeffler's original study using both stricter measures of what constitutes civil war and an 'empirically derived, improved specification', and find that aid has up to less than half the proposed effect on growth between years three and seven – supposedly key years of the post-conflict phase. Indeed, they argue, any growth stimulated by extra aid injections would be negligible (0.26%). Additionally, Suhrke and Buckmaster (2006) argue that Collier and Hoeffler's research is based on highly aggregated data and a small number of observations, meaning its relevance is limited. Their approach is to disaggregate the data and look at comparative case studies. They report a number of findings: high levels of post-war aid and rapid economic growth are not necessary preconditions for sustained post-war peace; aid levels and economic growth rates are not clearly related to the quality of peace; aid can help stabilise peace in the short term, and is compatible with sustained peace in the longer term; and political contexts of donation and implementation have considerable influence on aid patterns.

Broadly speaking, the findings in this particular literature are fairly inconclusive, not least because minor alterations to datasets, variables and models generate significant variations in results. Bourguignon and Leipzige (2006: 5) offer some broader reasons as to why understanding the relationship between aid and growth is so difficult. First, the problem of reverse causality:

> Sorting out the direction of causation remains a major challenge in economic research on growth in this area – as in others. Aid can foster growth, but slow growth – for instance due to a succession of crises – may also trigger aid. While the more recent literature attempts to control for this aid 'endogeneity' problem through instrumental variables, it is still not entirely convincing because the quality of instruments themselves is often debatable.

Second, there is a problem relating to the timing of analysis and country specificity. Sierra Leone may be a high-aid country, but if the period studied includes civil war years, it will turn out to be a low-growth country as well; past aid to conflict-ridden Côte d'Ivoire will appear to have been ineffective if judged only on growth performance. When looking at growth in fragile and conflict-affected situations, cross-country regressions rarely take specific features into account; they are thus poor predictors of the relationship between growth and aid.

A third problem is that, of the multiple objectives of aid:, 'ODA targets goals ranging from political and diplomatic support to friendly governments, peace-keeping, nation-building and other military operations' (Bourguignon and Leipzige, 2006: 5). Bourguignon and Leipzige (2006) ultimately ask whether researchers have already hit the limits of what empirics can reveal about aid, and suggest a need for a different, supplementary approach that is capable of taking country specificity into account.

### 5.3.2 The dual imperative: growth as a peace process

Despite the often healthy GDP rates found at the aggregate level (see Table 2), it is important to remember that countries emerging from conflict face enormous obstacles to growth (Gorlorwulu, 2011). Addressing these requires informed and sophisticated approaches by the international community in close partnership with domestic actors. In general, the primary objective of economic interventions and reforms is to promote economic growth. In places affected by conflict, however, they are tasked with the additional goal of contributing to peace.

It is generally accepted, for example, that PSD, if carried out sensitively and in a way that addresses contextual characteristics, can have a potentially significant impact on post-conflict situations (MacSweeney, 2008). And even where macroeconomic policies are not considered the primary mechanism to achieve peace, their 'fundamental goal should be to contribute to that end, not to make it more difficult' (Hailu and Weeks, 2011: 4). **Economic programmes and policies therefore face a dual imperative: generate growth and consolidate peace.** As UNDP (2008: xvii) states, 'Economic recovery is essential for reversing and transforming [...] adverse [developmental] conditions, and to reduce the risk of a reversion to violence'.

This is a very ambitious ask. As pointed out on numerous occasions in Section 4, we still know relatively little about the economic impacts of interventions as it is, and measuring contributions to peace building is not straightforward (what indicators do you select and how do you isolate causality?) Our systematic review of the impacts of M4P programmes is illustrative in this regard: of the (admittedly low number of) studies assessed, not one assessed the intervention in question against peace-building outcomes.[25]

A similar criticism applies to the role of businesses more generally: beyond qualitative case study reports, there appears to be a lack of robust academic literature on the impact of business on peace and stability – either positive or negative – and the potential avenues of influence.

Thus, **we know relatively little about the peace contribution of economic interventions.** Indeed, rather than assuming that economic growth and peace are complementary, mutually reinforcing outcomes, it may well be the case that certain trade-offs are involved (Goodhand and Sedra, 2007). As Hailu and Weeks (2011) suggest, the most important thing is that citizens perceive poverty reduction and economic growth in post-conflict situations as fair and equitable, which can be especially problematic when economic distribution favours ex-combatants or particular ethnic groups. Implementing 'unduly austere deficit and inflation targets' to address fiscal gaps is also considered particularly dangerous (ibid.).

The clear policy implication of this is that 'growth' broadly defined is not good enough; instead, an emphasis needs to be placed on pro-poor or equitable growth. Moreover, it is highly likely that economic growth is probably not the most effective mechanism to achieve peace, at least not in all contexts. After conflict broke out in the north of Ghana in the mid-1990s, for example, Snyder and Bhavnani (2005) observed a correlation between government spending on infrastructure and social welfare schemes and the containment of violence and restoration of peace. And, as Hanlon (2010) argues with respect to post-war Mozambique, a failure to promote social and economic development on the part of the government can contribute to a breakdown of the social contract between citizen and state, a circumstance considered by some to increase the risk of (further) civil war (Addison and Murshed, 2001; 2006). More broadly, where aid and foreign investment goes matters. Pouring resources into certain sectors will generate greater poverty-reducing or job-creating effects than investing in others (Virtanen and Ehrenpreis, 2007).

There are two main characteristics of economic engagement in conflict-affected situations that further problematise efforts to achieve the 'dual imperative': uncertainty around **timeframes** (Section 5.3.3) and the persistence of **economic blueprints** (Section 5.3.4).

### 5.3.3 Timing and sequencing

There is considerable discussion within the literature on conflict and growth about when the best time for international engagement might be. Many agree that acting in the first year of the immediate post-conflict period – variously referred to as the 'golden hour' (Chandran et al., 2008) or '**window of opportunity**' (Mendelson-Forman and Mashatt, 2007) – is vital (see Moore, 2000 for a more critical take on this). As Mendelson-Forman and Mashatt (2007: 3) argue, the 'first months of postwar actions are often the most important in setting the tone for what will ultimately be a long-term process of rebuilding, reconciliation, and peace-making'. Yet, at the same time, technical guidelines frequently warn donors not to expect too much too quickly – if experience has taught us anything, so the argument goes, it is that progress takes time and we should be realistic in our expectations (Bray, 2007; World Bank, 2011). Similarly, while donors are keener than ever to see tangible impacts of their funding, it is often years before these are observed. Indeed, even large-scale poverty reduction programmes regularly have a limited impact on poverty levels and can fail to reach the poorest households. BRAC's Challenging the Frontiers of Poverty Reduction (CFPR), for example, seeks explicitly to extend microfinance to Bangladesh's poorest households. But such interventions require significant investments of resources and take years, rather than months, to achieve an impact. Given the expectations in post-conflict situations that results will emerge quickly, in this particular case the appropriateness of microfinance warrants further critical attention.

Discussions around timeframes have driven a related debate on the **sequencing of interventions.** Much of the literature suggests a sequential approach to promoting growth, PSD and employment in fragile and conflict-affected situations, with a focus on emergency job creation required initially, to be replaced over time by a growing focus on interventions aimed at longer-term employment generation through the

[25] Our systematic review on M4P explored the impact of M4P on social cohesion for a proxy for peace building.

private sector.

For example, UNDP (2008) sets out a three-track approach, based on how much time has passed from the conflict or source of fragility for the state. Track A deals with stabilising income and emergency employment creation, through the creation of direct employment schemes such as large-scale public works programmes, for example, which would be needed immediately after a crisis. Track B focuses on local economic recovery reintegration, the economic strengthening of local communities and the creation of labour demand within them, through investments in 'socioeconomic infrastructure and local institutions' and the 'introduction of value-adding, income generating activities' (UNDP, 2008: 75). Track C is aimed at the creation of long-term employment and includes 'interventions geared towards changing industrial structures, nurturing the local private sector and labour markets, inducing foreign investment and strengthening inter-sectoral linkages' (ibid.). Such an approach now constitutes a central framework for UNDP's Bureau of Crisis Prevention and Recovery's economic operations.

However, some argue that efforts to promote PSD should start straightaway. For example, the SEEP (Small Enterprise Education and Promotion) Network (2010) argues that market development should begin immediately after a crisis as long as certain essential conditions have been met, such as general population stability, signs of market activity beyond the black market and security in the capital city and surrounding areas. If these conditions are met, the implementation of market development programmes can begin in concert with emergency relief programmes. Yet, as UNDP (2008) notes, there is a trade-off between policies to create jobs in the short run and the policies needed to create macroeconomic stability and fiscal sustainability, which are conducive to growth and employment creation in the long run.

Importantly, **sequencing is context specific.** The literature suggests that, in 'deteriorating' and 'arrested development' or 'prolonged crisis' contexts, opportunities for growth and PSD may be particularly limited, simply because these are places where it is very difficult to do business and the prospects for future growth are poor. In these environments it may still be possible to promote and support livelihoods in the informal sector as a form of social protection, but it is likely to be very difficult to generate more sustainable PSD. Contexts where the situation is improving, such as in 'turnaround' countries or 'post-conflict' environments following a peace agreement, may, by contrast, present real opportunities for growth, PSD and sustained employment generation.

### 5.3.4 The politics of growth and the persistence of economic blueprints

The point that economics is political is often made – but it is not trivial. Economic activity does not take place on an even, neutral playing field; it is shaped by the interests and behaviour of various groups. The role played by power in determining livelihood and economic outcomes has been highlighted consistently throughout this paper (and elsewhere – see Collinson, 2003), and it is apparent from the growth literature that such an issue merits deeper reflection.

Williams et al. (2011: S30) define the politics of growth as 'the processes of conflict, negotiation and co-operation between interest groups in the use, production and distribution of resources'. These processes occur universally and through all phases of the conflict 'cycle', but may be more pronounced – and more violent – under particular circumstances. Understanding the structure of the political economy in a given context can help us understand why this might be the case (Humphreys and Weinstein, 2009). For example, Goodhand (2008: 419) demonstrates that the drug economy in Afghanistan does not produce homogeneous impacts on peace building; differences in power relationships and models of extraction are found to account for why this is:

> In the north, drugs, to some degree, have played a role in cementing political relationships between the centre and periphery and in so doing helped create a level of political order. In the south, however, they have fuelled the combat economy and enabled the Taliban to generate political capital by protecting the peasantry and traffickers.

This example serves to illustrate how the interplay between political relationships and (illicit) economic activity has important consequences for stability and order – and indeed that economic activity itself exists as an arena for political bargaining. This kind of political economy approach to examining conflict and economic activity has been applied by a number of recent studies, both qualitative (Walraet, 2011) and quantitative (Pellillo, 2012), with promising results.

Williams et al. (2011) go on to explore the empirical literature on growth. They find a number of factors to be closely associated with growth – although not necessarily causally – and group these under three headings:

- Freedom from expropriation: investors need confidence that they will be able to retain their assets and an adequate share of proceeds.
- Well-functioning, competitive, appropriately regulated and internationally open markets operating in stable macroeconomic conditions.
- Adequate and appropriate investment in public and semi-public goods, in particular infrastructure, human capital and technology acquisition, that is underprovided by the private sector.

For these three groups of factors to be 'in place', a functioning and effective political order is first required: without a monopolisation of violence, regulation of markets or appropriate public investment, the preconditions for good growth are missing. Yet, conflict profoundly affects the ability of political actors, particularly governments, to perform these basic functions. Williams et al., 2011: S39) point out, for example, that private predation is most serious in conditions of violent conflict: 'Predatory acts are often violent and unpredictable and impose unacceptable costs and risks of doing business, deterring most types of investor…Violence discourages investment, destroys assets and interrupts productive activities. Growth is usually negative except sometimes in sectors offering exceptionally high returns…or in activities connected to the security industry.'

A central finding of Carpenter et al. (2012) is that citizen demand is just as important as the supply of services (and the fulfilment of other functions) for strengthening state legitimacy and building state–society relations. Certainly, but we must not forget the supply side – governments and other political actors still have their end of the bargain to hold up. However, as Williams et al. (2011) point out, building state–society relations today is quite different from Western European state building: political elites can access unearned (and illicit – see Moore, 2011) incomes and invest these abroad; middle classes can migrate or spend elsewhere; and ODA can weaken domestic accountability and reduce incentives for domestic resource mobilisation. These are economic as much as they are social or political shifts, and it is therefore important to recognise that the contemporary nature of the global political economy can have implications for both the demand *and* supply sides of state building.

The work drawn on above demonstrates that the links between violent conflict, politics and economic growth are explicit and that we do not need to dig too far to uncover them. Yet, serious engagement with the politics of economic activity is what is missing from many accounts of growth in fragile and conflict-affected situations. Technical discussions and lessons on the practicalities of facilitating growth are important, and there is indeed a place for them. But they constitute just one element of what should be a broader analysis. Complementing technical analyses with a political economy approach enables us to locate the power relations and political marketplaces that underpin economic landscapes, thus helping us realise that existing (and sometimes hidden) internal institutions, economic systems and social orders mediate all interventions (see Ottaway, 2003; Pain, 2012; Richmond and Franks, 2007).

What is also apparent about external economic engagement in fragile and conflict-affected situations is that recent and current approaches to promoting growth have been **driven largely by neoliberal economic and political principles.** As part of this, the role of the state has been side-lined. As Pugh (2011: 309) notes, 'Transition programmes are designed to reduce the economic role of the state'. Indeed, sometimes, the neoliberal bent of internationally endorsed economic policies in post-conflict countries has been upfront and explicit. Pugh (ibid.) continues: 'the Rambouillet ultimatum to Serbia-Montenegro of 1999 specified that "the economy of Kosovo shall function in accordance with free market principles"'.

Privileging the free market over the state in this way is a political choice, arguably based in large part on ideology rather than evidence. It also raises questions over the current paradigmatic positioning of the conflict-affected state. Normatively speaking, this is a state that, following 9/11, 'must work' (Menkhaus, 2004: 152) – that must exert checks on internal violence and criminal activity; that must project official authority towards spaces deemed ‘ungoverned’ in order to make potentially volatile populations legible and civilised; and that must play an instrumental role in the country’s economic and social development. But it is also one whose form and function must simultaneously adhere to the rules and scriptures of neoliberal political economy. Just how tenable and secure this combination is remains uncertain.

There are signs that we may be moving away from some of the rigidity of the free market approach, as Williams et al. (2011: S35) argue: ‘confidence in the standard policy prescriptions is shifting towards greater recognition of the diversity of country situations and acceptance of heterodox growth strategies’. But, in many instances, mainstream approaches to promoting economic growth in conflict-affected situations and through war-to-peace transitions remain both heavily market oriented and remarkably formulaic. For example, we know that credit markets are complex institutions, depending on a number of factors in order to operate smoothly and efficiently. Yet, the provision of credit lending schemes often dominates domestic private sector recovery in the immediate aftermath of conflict, which calls into question the viability of this as a core donor approach (Gorlorwulu, 2011; see also Box 10).

**Box 10: Domestic enterprise in a post-conflict environment – the Liberian Enterprise Development Finance Company**

Through interviews with a range of actors and analysis of field reports, Gorlorwulu (2011) explores the experience of the Liberian Enterprise Development Finance Company (LEDFC), an institution established in 2007 to provide medium- and long-term credit to domestic SMEs.

Liberia’s economy was left devastated by years of war. Even in the ‘official’ post-conflict period, prospects for economic growth were hampered by a number of problems, from the persistence of predation to the absence of effective legal recourse to contract enforcement. There was also a lack of credit available for domestic enterprise development, a concern that saw the creation of the LEDFC – an innovative institutional model in a post-conflict context. As Gorlorwulu (2011: 7) points out, ‘a publicly financed private lending institution like LEDFC is rare in post conflict reconstruction efforts in developing countries, especially those focused on the SME sector. Hence the LEDFC effort is a unique experiment in the context of post conflict reconstruction in an underdeveloped context which became an option due to limited commercial banking capacity in the country following the war.’

In terms of its outputs and impacts, although the LEDFC was able to finance eight SMEs in its first year – marking a ‘turning point’ for greater participation of domestic entrepreneurs in the economy – the limited number of loans approved to date is not enough to have a significant impact in terms of reviving Liberia’s private sector and reducing the country’s high unemployment rate.

In addition, Gorlorwulu identifies a number of problems associated with the design of the LEDFC, which, one can argue, pertain to a failure of the company’s architects to fully consider the realities of the local context:

- LEDFC financing has been concentrated in sectors controlled by those at the higher end of the social and economic scale, meaning that no funding has gone to any agricultural project.
- LEDFC financing has been concentrated geographically – all funding has gone to enterprises based in Monrovia.
- The Liberian business climate faces several constraints, including cost and availability of electricity and problems associated with the transportation of goods. These are far more fundamental issues than credit supply.
- The high level of informality in the Liberian economy and a lack of technical and managerial capacity of applicants – ‘It was the general view that most entrepreneurs function informally [...] The reasons for the high informality are related to the process for registering businesses. Research shows that many businesses view the registration

process as cumbersome and expensive, and, as a result, most choose to remain informal' (Gorlorwulu, 2011: 12).

The author offers five key lessons for post-conflict domestic enterprise financing:

- Facilitating access to finance is likely to require first addressing the critical and broader issues (e.g. infrastructure, business climate) that affect PSD in a post-conflict environment (this is where a growth diagnostics analysis could add particular value).
- The design of business finance programmes post-conflict must be sensitive to issues of collateral (e.g. where property rights are weakly enforced).
- The duration of financing projects for enterprise recovery and development has to take into account the time it might take to build adequate capacity in the private sector.
- Financing strategies that include entrepreneurial capacity building may be more suitable in a post-conflict environment than debt financing.
- Sequencing and coordinating finance programmes with other reconstruction efforts (e.g. infrastructure projects) may help increase the effectiveness of such programmes.

Source: Gorlorwulu (2011).

To close this section, we return one last time to Pugh (2011: 310), who laments the state of external economic engagement in fragile and conflict-affected situations:

> The liberal peace paradigm has been a framework of assumptions about the superiority and universalism of a neoliberal, capitalist economic order that largely disqualifies local bodies of knowledge and resistances. The paradigm represents a denial of political and social resistance, reifying the notion that an autonomous sphere of economies, protected by an a priori logic, determines political practices, while also being immune to those practices. The determinism is reflected in conditionalities and structural adjustment policies promoted by aid agencies, donors, corporate interests, and international financial institutions, and in the merging of peacebuilding with statebuilding to 'reinforce and "lock in" liberalizing political and economic reforms' [...] Thus interventionists tend to specify privatisation and financialisation of public goods, entrepreneurship through micro-finance, and support to the 'free market', foreign investment, export-led growth, and integration of societies with little comparative advantage into a global trading system.

# 6 The evidence base: what are the problems and where are the gaps?

Having mapped the evidence, discussed its contents and presented key findings, in this section we offer reflections on the nature of the evidence base on growth and livelihoods in fragile and conflict-affected situations, paying particular attention to some of its primary weaknesses and most visible gaps. The section is split into two parts: the first reflects on the uncertainty of the data on economic activity and raises questions over the robustness of the aggregate-level evidence on growth in fragile and conflict-affected situations; the second pinpoints knowledge gaps in a more general sense.

## 6.1 Questioning the numbers: uncertain economics

There is a headline story on growth and conflict: slow growth is associated with a higher risk of violent conflict and war weakens economic growth. Taken at face value, these conventional wisdoms lend themselves fairly unproblematically to the popular conflict or poverty trap argument (Collier et al., 2003). They also feed the idea that war is 'development in reverse'. The obvious policy response to this narrative is to promote growth in conflict-affected countries; indeed, while economic growth is seen as good in itself, it is also assumed to possess peace-building qualities: get the right mix of policies, programmes and institutions, and rapid economic recovery, plus all the peace dividends associated with rising GDP, will surely follow, as has been the case to varying degrees in a number of now successful post-conflict countries, including Vietnam (Vandemoortele and Bird, 2011) and El Salvador (Harris and Foresti, 2011). This logic may explain why a significant proportion of the literature on growth and conflict converges on the question of how to 'do' growth better in fragile and conflict-affected (but mainly post-conflict) countries, rather than the more fundamental question of whether this is in fact the right thing to be focusing on.

However, a far messier reality underlies the headline-grabbing big picture outlined above. Although conflict can, and frequently does, exert devastating impacts on physical and human capital – the micro-foundations of growth – there are two sides to the story. Physical loss does not necessarily lead to the erosion of agency, and war cannot be said to represent development in reverse, at least not in an absolute sense. Rather, exogenous shocks and crises can actually result in more risky behaviour and greater entrepreneurial activity, thereby realigning the economic orientation of people's livelihoods. This is not to romanticise conflict as a force for good, but instead to recognise its transformative potential and capacity to, in some cases, encourage growth via its effect on human behaviour. Nevertheless, much of the relationship between conflict and growth remains shrouded in uncertainty, and we still lack understanding of nuance and specificity.

### 6.1.1 Unclear empirics and the dominance of econometrics

The majority of programmatic evidence suffers badly from unclear empirical foundations. While there are many case studies, very few provide robust impact assessment, particularly on the long run, or overall impacts at the aggregate level. Moreover, given that they often embody complex and interrelated packages of measures, the studies that do exist are difficult to compare and draw clear lessons from. This makes it very difficult to extract firm conclusions about what works and what does not. There is a clear need for more robust impact assessment, accompanied by systematic aggregation of the emerging evidence on specific types of interventions.

The more quantitative-oriented cross-country and micro-level evidence is generally far better at describing methodology and being transparent about data. But these studies too have their weaknesses. For example, some micro-level studies have been accused of privileging description over attribution and not using proper comparison groups (Fiala, 2011). As with quantitative experimental studies more generally, it is also unclear how generalisable many of the findings are. Contextual confounding factors are not simply annoyances to be controlled for, but rather the central mediating factors determining outcomes. As such, there understandably remains some doubt as to whether reducing complex phenomena to numbers generates valid findings.

Greater criticism has been levelled at cross-country econometrics, which is perhaps unsurprising, given the level of influence such studies have held over recent decades. Recent academic contributions have questioned the epistemological foundations of such research. Lamenting the persistence of the positivist research paradigm and the use of formal, quantitative metrics in research on conflict, peace and economics, which become particularly problematic in the absence of reliable and appropriate data, Pugh (2011: 311) argues that 'Mainstream neoliberalism and econometrics have represented a form of hegemony that might be held to exclude other kinds of knowledge'. Korf (2011: 7) notes a further fundamental flaw in the design of cross-country econometric methodologies:

> Large-number, cross-country studies have been criticized for developing abstract explanatory frames that are not contextualised within actual landscapes of small wars, i.e. their micro-foundations are often underspecified. They are not developed to explain variation in landscapes of warfare, but rather to identify similarities. And they tend to treat the territories of small wars as homogeneous [...] In other words; these models ignore the geography of violence in small wars.

### 6.1.2 How do you measure a problem like growth? The limits of GDP

GDP – the 'most important variable in analyses of economic growth' (Henderson et al., 2011: 1) – is notoriously difficult to measure in developing countries. Henderson et al. (2011: 1) continue:

> The conceptual problems in defining GDP, let alone using it as a measure of welfare, are the stuff of introductory economics courses. Just as serious, however, is the problem that GDP itself is often badly measured, especially in developing countries. Relative to developed countries, in many developing countries a much smaller fraction of economic activity is conducted within the formal sector, the degree of economic integration and price equalization across regions is lower, and, most significantly, the government statistical infrastructure is weaker. These factors make the calculation of nominal GDP (total value added, in domestic prices) difficult.

There are a number of issues at play here. The first relates to the **size of informal economies** in developing countries, and particularly in ones affected by conflict, and the extent of economic activity that GDP fails to capture. Indeed, there have recently been calls to design and implement more accurate ways of estimating the informal activity of developing country economies, with Jerven (2010) highlighting the importance of up-to-date household budget surveys data.

The second issue relates to **economic heterogeneity within countries** (see also Box 11). Aggregate statistics tell us very little about what is happening in particular parts of a country, which is particularly concerning given that fragility, violence and conflict tend to occupy particular sub-national spaces rather than affect nation-state territory evenly.

The third issue can be referred to as a '**rebasing**' concern. There is currently an increasingly vocal discussion unfolding among economists about the viability and accuracy of GDP data. Recent rebasing exercises – essentially, fixing errors in previous and existing estimates of sector contributions to national accounts – have illustrated the uncertainty and fragility of information on levels of national economic development. As Moss and Majerowicz (2012: 2) report:

> On November 5, 2010, Ghana completed a rebasing of its national accounts that adjusted GDP estimates to account for growth in certain sectors like banking and telecommunications. Because of a structural undercounting of the services sector, official statistics had drastically underestimated overall GDP. By fixing this error, Ghana's GDP grew, at least on paper, by 69% overnight to $25.8 billion up from $15.3bn [...] This recalibrated number raised GDP per capita from under $800 to $1,363 [...] So while Ghanaians themselves probably felt no wealthier or less debt-burdened on November 6th, they suddenly became the newest African lower-middle income country.

Although not geared specifically towards countries affected by conflict, this is a debate that has serious implications for our understandings of economic development in fragile and conflict-affected situations. Ghana is not a conflict-affected country, yet this is precisely the point. Returning to Moss (2010), who reflects more informally on these findings in a recent blog post, one of the big upshots of Ghana's rebasing exercise is arguably the realisation that:

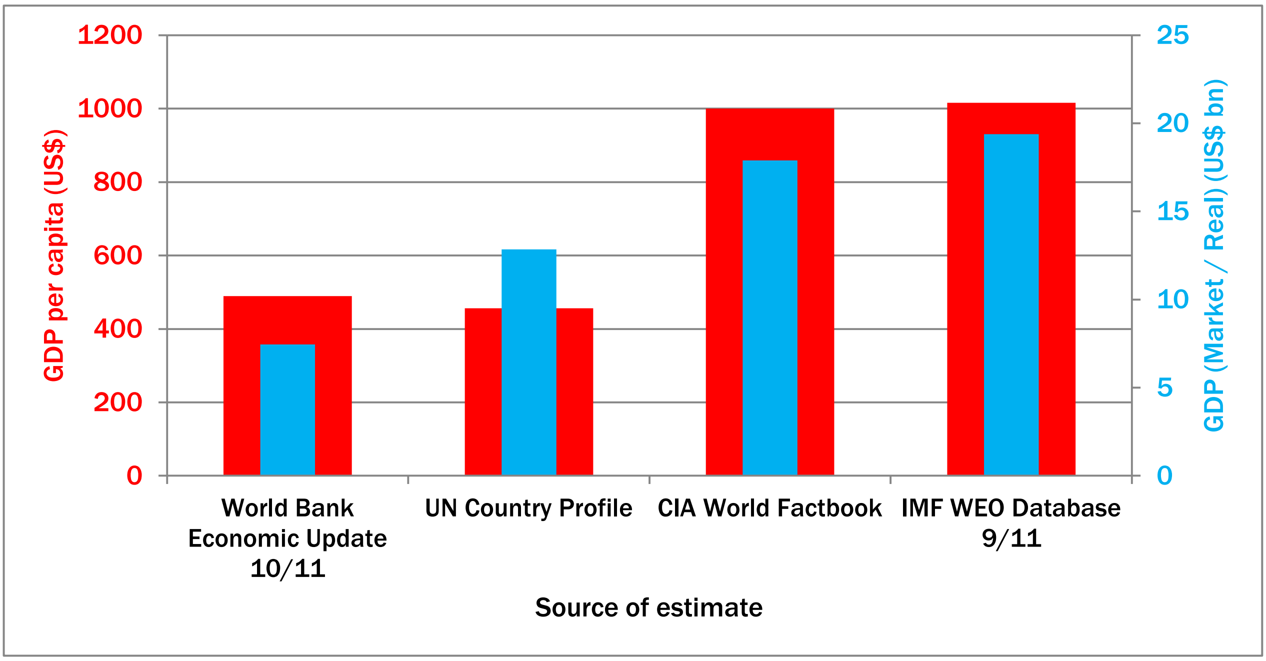
> We really don't know anything. Over the past thirty years Ghana has been one of the most scrutinized, measured, studied, picked-over economies in Africa...If we are nearly two-thirds wrong

on Ghana's GDP, what hope can we possibly have in stats for Chad? Everyone knows that data is dubious, but this seems to add a whole new level of doubt.

Jerven (2011) offers similar reflections, suggesting we know 'much less than we like to think' about income and growth in sub-Saharan Africa (Jerven, 2011: 36) – which is a real problem. Given that growth rates and per capita income estimates are used widely to inform and guide policy formulation, if they do not mean anything, 'a great part of development analysis and policy targets is similarly meaningless' (ibid.).

Such problems are likely to be even more pronounced in situations of conflict and fragility, meaning that the reliability of the data on which GDP figures for conflict-affected countries are based needs to be treated with a great deal of caution. Cordesman (2012) has made exactly this argument in relation to Afghanistan, stating explicitly that 'There are no reliable macroeconomic data on Afghanistan' (ibid.: 7). Indeed, a number of GDP estimates exist (see Figure 4), but because they vary so radically, there is 'no meaningful baseline for economic planning' in Afghanistan (ibid.: 7). Moreover, given that the methodologies for calculating GDP are rarely fully explained, qualifying these estimates is hugely challenging, if not altogether impossible. (See also Danielewitz, 2011 for critical yet measured reflections on South Sudan's first GDP estimate made last year).

**Figure 4: Competing GDP estimates (per capita and market/real, US$) for Afghanistan, 2011**




Source: Cordesman (2012: 8).

There have, however, been a number of **recent developments in efforts to both quantify and understand economic growth.** For example, several new studies use innovative proxy indicators, such as the amount of light observed from outer space (Henderson et al., 2011) and province-level market data, nightlight emissions and high-resolution satellite imagery (Shortland, 2011), to estimate growth and economic activity. Such approaches help us better understand the geography of economic activity, including sub-national and regional heterogeneity.

**Box 11: Economic heterogeneity in DRC – how sub-national growth diagnostics add value**

Since 2002, DRC has experienced continuous years of positive growth in per capita incomes, and, compared with other post-conflict countries, demonstrates average performance of GDP growth, similar to Mozambique and Uganda but worse than Rwanda and Sierra Leone. Indeed, since 2003, DRC's GDP growth has caught up with and remained similar to Sub-Saharan Africa averages. Most of this growth is the result of 'massive aid, private investment flows in the mining and forestry sectors and large donor-funded basic infrastructure projects' (Ulloa et al., 2009: 18).

Yet, barriers to growth (or 'binding constraints') remain. Ulloa et al. (2009) attempt to identify the most serious binding constraints by undertaking a series growth diagnostics exercises at the provincial level, focusing separately on the most important provinces in terms of economic activity (Kinshasa, Katanga), two post-conflict provinces (South Kivu, Orientale) and one of the poorest provinces (Bandundu). The rational for this is many-fold (ibid.: 22):

- DRC is a large country with significant differences in terms of geography, economic activity and poverty levels; sub-national analysis allows for a more accurate and contextual mapping of constraints and better reflects local realities.
- There is generally low mobility of goods and poverty reduction within the country; thus, analysis of differences in human capital, access to credit and other factors at the provincial level is important.
- Provinces tend to specialise on the basis of specific natural and human endowments, rendering a one-size-fits-all approach inadequate for policymaking at the provincial level.

At the aggregate level, the authors identify government failures, lack of finance and lack of infrastructure as the most active binding constraints, although sub-national factors ultimately determine both the specific nature of the problem as well as the necessary remedial action. In addition, addressing DRC's binding constraints will require a commitment and coordinated effort by central and provincial authorities in collaboration with the private sector – the challenges cannot be solved by the central government alone.

**Source: Ulloa et al. (2009)**

Growth diagnostics exercises can also be of value in this regard, particularly when diagnosticians take a sub-national approach. Ulloa et al. (2009), for example, look at regions within DRC, providing a masterful account of barriers to growth and generating numerous insights into the nature and patterns of intra-national growth over recent years (see Box 11).

Finally, the increasing body of quantitative micro-level evidence (see Section 2.4.3) is helping us make better sense of the impacts of conflict on the **micro-foundations of growth** as well as the range of **transmission mechanisms** though which household activity feeds into broader economic processes. Much of the recent evidence on transmission mechanisms has been driven by the generation of 'better micro-level data and greater use of experimental or quasi-experimental variation', and is now considered instrumental to improving our understanding of the consequences of conflict (Blattman and Miguel, 2010: 8; see also outputs from the Micro-level Analysis of Violent Conflict (MICROCON) research programme and the Households in Conflict Network (HiCN)).

## 6.2 What are we missing?

There are several gaps in the evidence base, a number of which are discussed below.

### 6.2.1 Where are the impact data?

A consistent criticism of the literature on livelihoods and growth in conflict-affected situations is that it is, generally speaking, **very light on evidence of impact**. Perhaps as a result of the potency of conventional wisdoms and narratives of success, there does not appear to be much of a 'culture' of doing impact assessments. Moreover, many 'evaluations' appear to conflate outputs with impacts, the former of which are more related to the 'internal' success of programme design than to outcomes for beneficiaries. This is not to say that good evidence on impact does not exist in the literature, but rather that it is counterbalanced by a far larger body of writing seemingly unconcerned with either impact assessment or methodological clarity.

Indeed, a few large syntheses of the evidence on various interventions in conflict-affected situations are available. These include:

- The SEEP Network's (2010) Minimum Economic Recovery Standards, which focus on interventions designed to improve income, cash flow, asset management and growth among crisis-affected households and enterprises.
- UNDP (2008) on post-conflict economic recovery, including macroeconomic policies.
- USAID (2009) on approaches to promoting economic growth in post-conflict countries.
- Parker (2008) on VCD projects in conflict-affected environments.
- MacSweeney (2008) on PSD in post-conflict situations.
- GTZ (2006) on PSD in reintegration and reconstruction programmes.

Yet, although useful in many respects, such syntheses tend to embody the weaknesses of the literature as a whole, pulling together practice-based lessons and offering only tokenistic accounts of effectiveness.

### 6.2.2 Livelihood interventions: the role of government and the impact of governance

Overall, there is an **extreme lack of accessible data on government livelihood interventions in fragile and conflict-affected situations**.[26] This may be explained in part by the fact that, in conflict situations, government presence may be very low, with vulnerable groups dependent in the main – and sometimes entirely – on international assistance to support their livelihoods strategies (Alinvoi et al., 2007). Further, as Commins (2007) points out, livelihoods do not constitute services that can be provided, like health care or education. But livelihoods are affected by services or programmes, such as agricultural extension and veterinary services, as well as by the role of the state in establishing an enabling environment for livelihoods (ibid.).

Expectations of such services will differ in countries depending on the contextual conditions predating conflict. In post-2001 Afghanistan, for example, graduates of Kabul University's Faculty of Agriculture, with memories of superpower support during the Cold War, felt entitled to state-run extension and support services, as did farmers themselves (Pingali et al., 2005). To date, the extent to which effectively managing such expectations and providing agricultural and livestock support services can impact on state–citizen relations and perceptions of the state, helping foster increased stability, has not received the attention garnered by, for example, health or education service delivery (see Carpenter et al., 2012), although Fennel (2009) has contributed to this potential new area of research with an initial sketch of the linkages between agricultural service provision and state fragility.

Moreover, governments have generally not explored the opportunities to act as a steward of non-state provision of such livelihoods support services in any significant way, which is a major contrast to the cases of basic services such as health and education, where stewardship is an expanding policy agenda of major interest, particularly in light of its, as yet unproven, potential to help foster improved state–citizen relations and perceptions of the state.[27]

It also appears from the evidence review process for this paper that programmes by international NGOs and UN agencies rarely include interventions that focus on governance and institutions , or they are

[26] Government programmes in fragile and conflict-affected situations are generally difficult to locate, with poverty reduction strategy papers (PRSPs), where present, describing broader policies and strategic objectives rather than specific programmes and interventions.
[27]The case of MISFA in Afghanistan is arguably the exception to this rule.

ascribed a very low proportion of available funds.[28] The examples available in the literature are merely descriptive and do not include any examination of effectiveness or impact. Still, cases like the work of Oxfam in the Philippines are important to highlight, as they illustrate instances where aid actors are effectively tailoring programmes to address the specificities of policies, institutions and process in situations of conflict and fragility. In the Philippines, Oxfam integrated four governance components into its livelihoods programme (Jaspars and Maxwell, 2009):

1. Empowering groups to identify their own priority livelihoods needs and linking these to government services.
2. Creating community disaster preparedness plans in anticipation of future displacement, including monitoring the movements of militia, identifying places where people could go and making arrangements so people could take important assets with them.
3. Conducting a rights awareness campaign to enable people to approach the government for support and resources, as well as making them more confident in negotiating with armed actors.
4. Conducting campaigns to make government institutions and warring parties aware of their responsibilities.

Distinct from single programme-based interventions, 'area-based development' has also been used to integrate the processes of strengthening local governance, dispute resolution and income generation and local economic recovery, as in PRODERE in Central America, run by UNDP in association with UNHCR, the International Labour Organization and the World Health Organization (UNDP, 2008).

A review of livelihoods programming in conflict found that much less work has been done on engaging with traditional governance mechanisms to support livelihoods (Jaspars and Maxwell, 2009). This can perhaps be explained by the challenges inherent for aid agencies in engaging with local governance, power and political economy dynamics. In Afghanistan, for example, access to irrigation water is often connected to ties with local, or even national, political or military leaders, and, as Longley et al. (2006) argue, even where aid agencies are aware of how these structures impact on access to water, and in turn livelihoods, they may not have the capacity to exert pressure for fairer distribution, or to influence the complex social, political and economic process through which resource distribution is negotiated.

#### 6.2.3 Key knowledge gaps

Several knowledge gaps are evident within the literature on growth and livelihoods in fragile and conflict-affected situations. In particular, more research is needed to:

- Understand the heterogeneity of conflict's economic impacts on different groups of the population, in particular on women (i.e. the distributional consequences of war).
- Identify the full range of potential channels through which warfare affects households economically.
- Clarify the conditions under which conflict-affected or displaced households are able to recover assets and/or accumulate greater assets.
- Accurately and reliably assess the *impacts* of growth-related interventions, such as microfinance programmes, in *conflict-affected* situations.
- Identify the potential complementarities and trade-offs between short-run job creation policies and long-run growth strategies in fragile and conflict-affected situations, where short-run policies tend to have more justification.
- Assess the extent to which conflict-induced expansions in self-employment and informal labour market participation can accurately be described as expressions of 'entrepreneurialism' that are 'good for growth'.
- Gain a better understanding of informal labour market dynamics in conflict-affected situations.
- Gain a better understanding of the role of a variety of informal institutions in shaping patterns of economic activity and processes of economic growth

[28] For example, an Oxfam community-based rural livelihoods programme in Badakhshan, Afghanistan, allocated only 1% of funds to the strengthening of local governance processes (Gandhi and Krijnen, 2006).

# 7 Conclusion

Decades of research and observation tells us that conflict exerts terrible effects on societies and economies. Households lose assets, businesses stop operating, relationships break down, lives are lost; in some cases, states collapse and institutions disintegrate. But this is not the whole story. Although profoundly reorganised, economic activity continues and families find new ways to bring in an income, to send their children to school, and to keep themselves healthy.

This literature review has approached the issues of economic growth and livelihoods in fragile and conflict-affected situations from a broad perspective, setting out to uncover, and make sense of, the mass of literature and evidence available. The starting point was to retrieve relevant resources, which was achieved through a multi-staged, rigorous search methodology, and to map the evidence found within. This exercise identified four 'types' or 'categories' of evidence that appear to dominate the literature on conflict-affect livelihoods and growth:

- **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

The analysis presented in this review was based on a synthesis and combined assessment of these four 'categories' of evidence and their key findings. Yet, isolated analysis of each 'category' can also be illuminating. For example, the growing body of micro-level evidence focuses on the transmission mechanisms through which conflict affects poverty, incomes and growth, and, in some respects, can be used to supplement or counter the somewhat shaky national-level data often used to measure economic growth (see below). In particular, micro-level studies have the potential to show how violent shocks, even short-lived ones, can generate impacts that may last for years.

Additionally, the mass of qualitative case study evidence on the impacts of conflict demonstrates how heterogeneous household responses can be, based as they are on a combination of structural and household constraints. They provide good examples of the different combinations of strategies employed by households, and also demonstrate the importance of recognising the active agency of households in making choices. However, at the same time, they caution that choice may in fact sometimes mean coercion – indeed, livelihood activity under conditions of conflict is often underpinned by violence and threat – and that strategies are usually, if not always, i) shaped by a range of structural factors, from government policies to informal institutions, and ii) situated within broader systems of vulnerability.

However, what we struggle to understand from the case studies is how important one set of strategies might be in a particular set of circumstances. We don't know which strategies are more important during protracted crises compared to post-conflict situations, or how livelihood strategies in one country might compare with another country with some similar parameters. There have not, to our knowledge, been explicit and systematic efforts to track livelihood strategies along the timeline of a conflict – from evolution through to the signing of peace agreements and into a post-conflict phase – or to make serious cross-country comparisons.

Also emerging as a clear gap in the literature is the severe lack of robust evidence on programme impact. Evaluations and assessments often privilege outputs over impacts and questions of internal design frequently take precedence over the experiences of beneficiaries. More fundamentally, 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 silence is particularly concerning. Similarly, what is also found with remarkable regularity are literature reviews or syntheses which offer best practice guidance and policy recommendations based on unclear empirics and shaky foundations. Indeed, the lack of rigour pervasive in the literature – and particularly the literature on programming and practice – has materialised as one of the key findings of this review.

To take but one example, job creation programmes have been championed by various segments of the donor community as a pathway towards stability and prosperity in conflict-affected countries. As the World Bank noted in its 2011 World Development Report, 'strengthening legitimate institutions and governance to provide citizen security, justice, and jobs is crucial to break cycles of violence' (World Bank, 2011: 2), and it has been recently argued by new World Bank President, Jim Yong Kim, that the 'creation of many new jobs' can help a 'fragile state lose its fragility' (Kim, 2012). However, such enthusiasm may be based upon an overly simplistic reading of the relationship between (un)employment and violence, and – in any case – the impacts of job creation programmes are largely unknown. As such, there is a strong case to be made for a less zealous and more restrained handling of such interventions in contexts of fragility and conflict.

Finally, the economics of conflict and transition remain, to a large degree, shrouded in uncertainty. Studies based on econometric analysis of large-number (cross-country) datasets have proven to be particularly influential and dominant over recent years, and their findings are often cited in discussions about the relationship between war and economic growth. But numerous critiques have been levelled at such studies and serious questions regarding their accuracy persist. In particular, problems with measuring economic activity and growth at the national level, usually in terms of Gross Domestic Product (GDP), have become increasingly visible, spurred on in no small part by the fact that recent attempts to 'rebase' the national accounts of several stable countries have resulted in a series of sudden GDP revisions and income-status graduations.

In contexts of war and large-scale violence, some of the problems of GDP (and national-level measurements more broadly) are amplified. Although growth rates may often look strong, there is often a lack of understanding of where the growth is coming from. Even once formal peace agreements have been signed, it is not unusual for parts of countries to continue to experience high levels of violence and instability. It is in these places where the so-called 'peace dividend' may fail to materialise and it is these places that tend to get overlooked and misrepresented by national-level data. Thus, using GDP and aggregate data as a basis for policymaking in conflict-affected environments must be done so with extreme caution.

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# Annex 1: Methodology

The literatures on both livelihoods and growth in conflict are substantial, and how we define our concepts has significant implications for the parameters of the review: do we adopt a narrow or a broad understanding of livelihoods? Which countries do we classify as 'fragile' or 'conflict-affected', and to what extent does this affect the robustness of the review? The question of scale is also central. Livelihoods are generally associated with the micro, but are shaped by actions, processes and behaviours occurring across scales. And, while growth is generally associated with the macro, its foundations run right down to the local level. Indeed, such a review presents considerable analytical and logistical challenges.

In the proposal for the SLRC, we raised concerns about the current state of the literature on fragile and conflict-affected situations and on service delivery, social protection and livelihoods. We argued that it tended to provide generic overviews of issues (sometimes even literature reviews of other literature reviews) rather than more rigorous empirical and context-specific analysis. We identified four core weaknesses:

- A case study focus on small geographical pockets or individual sectors that led to a partial rather than comprehensive portrayal of people's own lives and livelihoods in fragile and conflict-affected situations.
- A lack of comparable studies owing to the use of different methods, definitions and contexts.
- A focus on snapshots or stock-takes of livelihoods, social protection and service delivery and a lack of longitudinal analysis that enables our understanding, particularly at household and community level, to be dynamic instead of static.
- Research that is isolated from rather than integrated into economic analyses of growth and development.

The analytical and methodological approach used in this evidence paper seeks to test the whether these criticisms are fair. It also aims to address concerns within DFID's Research and Evidence Division (RED) that literature reviews should be more systematic and replicable in terms of what literature is included in the analysis and more rigorously assess the quality of the evidence.

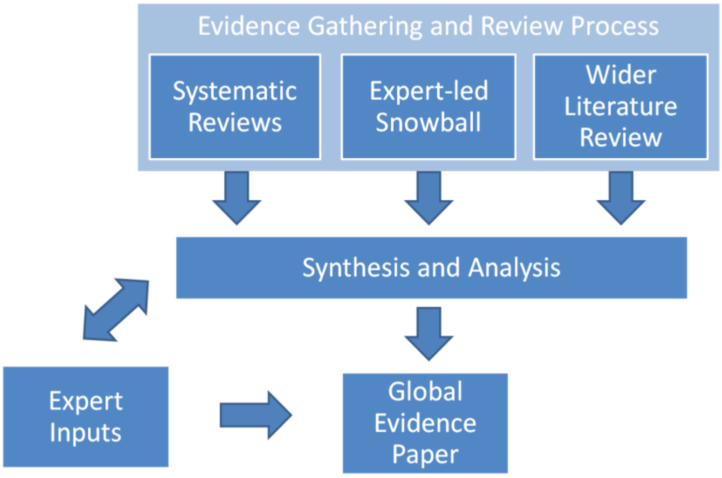
Our methodological approach involved three iterative stages (see Figure 5):

- A three-track evidence gathering exercise.
- A rolling process of synthesis and analysis of evidence.
- The inclusion of insights from leading experts in social protection, health, education and water in fragile and conflict-affected situations.

The evidence-gathering exercise involved three mechanisms:

1. Systematic reviews.
2. A snowballing approach with the starting point for the snowball determined by recognised experts in social protection, health, education and water.
3. An orthodox literature review process drawing on internet-based search strings.

**Figure 5: Three-stage methodological approach**




Within the paper, fragile and conflict-affected situations are identified based on a combination of the World Bank Fragile Situations list (2011), the World Bank International Development Association (IDA) Country Performance Ratings <3.2 (2006-2009) and the Failed States Index (2005–10) (Table 5).

**Table 5: Countries identified as fragile or conflict-affected**

| | | |
|---|---|---|
| Afghanistan | Guatemala | Palestine |
| Angola | Guinea | Papua New Guinea |
| Bangladesh | Guinea-Bissau | Rwanda |
| Bhutan | Guyana | São Tomé and Príncipe |
| Bosnia & Herzegovina | Haiti | Sierra Leone |
| Burkina Faso | Iran | Solomon Islands |
| Burundi | Iraq | Somalia |
| Cambodia | Kenya | Sri Lanka |
| Cameroon | Kiribati | Sudan |
| Central African Republic | Kosovo | Syria |
| Chad | Kyrgyzstan | Tajikistan |
| Colombia | Lao People's Democratic Republic | Tanzania |
| Comoros | Lebanon | Timor-Leste |
| Congo, Republic of | Liberia | Togo |
| Côte d'Ivoire | Malawi | Tonga |
| Djibouti | Mauritania | Uganda |
| Democratic Republic of Congo | Myanmar | Uzbekistan |
| Equatorial Guinea | Nepal | Vanuatu |
| Eritrea | Niger | Venezuela |
| Ethiopia | Nigeria | Yemen |
| Gambia | North Korea | Western Sahara |
| Georgia | Pakistan | Zimbabwe |

We recognise that many of the countries listed above may not typically be considered 'fragile' or 'conflict affected' – Tanzania and The Gambia are prime examples. Also, many of the countries are governed by states that are, in many respects, not fragile but strong. However, for the purposes of this review we wanted to take a broad view of fragility and conflict, and so, rather than narrow ourselves to a limited list of clearly 'fragile and conflict-affected' countries (e.g. Afghanistan, Somalia) – which would in any case still have been an exercise in setting an arbitrary cut-off point – we considered a wide range of countries and situations. This is more in keeping with the broad scope of the review.

## Evidence gathering

### Systematic reviews

One potential mechanism for addressing DFID concerns about the robustness of orthodox literature review/evidence paper approaches is to conduct a systematic review (see Box 12).

**Box 12: What are systematic reviews?**

DFID describes systematic reviews as an approach that maps out available evidence and critically appraises the evidence and synthesises the results. Systematic reviews differ from literature reviews or expert commentaries by incorporating greater transparency, rigour and replicability of analysis. They can be used to assess empirical work that is based on both quantitative and qualitative methods. The key element of a systematic review is the process, rather than the specific method used to aggregate and interpret data. The process involves developing a published and peer-reviewed protocol that includes:

1. A relevant research question developed in consultation with users.
2. A search strategy to find all the available studies, including journals, grey literature and unpublished studies.
3. A set of inclusion and exclusion criteria to select studies for review.
4. A quality appraisal strategy that is relevant to the review question and the types of studies under review.
5. Methods for synthesising the studies, according to the type of data available.

Systematic reviews are seen by their proponents as being:

More rigorous and replicable than literature reviews because anyone following the review protocol would arrive at similar conclusions.
Less biased because they systematically search **all** of the literature and extract relevant evidence.
Less biased because reviews are often conducted by teams, which further helps reduce the bias a single reviewer might introduce.

**Source: DFID** (2010a).

Five systematic reviews were conducted in total, two of which constitute specific inputs into this evidence paper.[29] These include systematic reviews on M4P interventions (for growth) and seeds and tools interventions (for livelihoods). The systematic reviews followed a more rigid process than the other evidence sources and a typical systematic review protocol: the identification of search strings, searches, exclusion of references not meeting allocated criteria, categorisation and analysis. They included testing to ensure that the process could be replicated in the future.[30] The reviews were designed to answer the following research questions:

1. What does the empirical evidence tell us about the impacts of seeds and tools interventions in fragile and conflict-affected situations, with particular regard but not limited to wealth, food security and stability? And how much evidence is there and what is its quality?
2. What does the empirical evidence tell us about the impacts of M4P interventions in fragile and conflict-affected situations, with particular regard but not limited to wealth, food security and stability? And how much evidence is there and what is its quality?

The process of synthesis and analysis of the studies focused on the impact of the interventions on the following outcomes: wealth (household income and assets), food security (food consumption and nutritional status – height-for-age and weight-for-age) and stability (social cohesion and state–citizen

[29] A full SLRC report on the findings of the five systematic reviews is forthcoming.
[30] The full protocol for the systematic reviews is available on request.

relations). While this approach was taken in order to maximise the potential for comparative analysis of outcomes across the five systematic review interventions, after testing the search strings it soon became apparent that confining our systematic reviews to a restricted set of outcomes would yield few to no relevant studies.

Following the completion of screening and exclusion, the analysis stage of the reviews examined three core features of the pools of studies, including:

- Quantity of the evidence on the impacts of each intervention (divided by fragile and conflict-affected situations).
- What the evidence tells us, evaluated through the use of (quality-weighted) vote counts and a qualitative synthesis.
- Quality of the evidence, drawing on a set of criteria on methodological quality, assumptions, sampling and data collection, and wider research considerations such as gender analysis, ethics and reflexivity.[31]

Potential benefits of the systematic review approach include:

- More careful development of research questions (rather than research themes or areas), including deconstruction of research questions in terms of *population*, *intervention*, *comparator* and *outcome*. This is particularly important given the very broad parameters of our research.
- Ensuring a consistent sampling and interpretation of the literature.
- Reducing bias in our analysis of policies and programmes.
- Systematically assessing research quality and using this to identify gaps in research outputs based on quality rather than quantity of outputs.
- The opportunity to establish a baseline for assessing the current state of research and replicating the process in five to six years' time to assess our impact.

However, our experience of systematic reviews suggested that, on their own, they would not prove adequate in an assessment of what is known about growth and livelihoods in fragile and conflict-affected situations. Systematic reviews would have limited usefulness given the large number of questions the evidence papers have to answer (e.g., it would take years to complete a review that included more than a handful of social protection or basic services instruments in fragile and conflict-affected situations); the lack of agreed terminology or complexity of many of the themes (and therefore search strings) our research covers (for example, 'fragile', 'social cohesion', 'basic services', 'livelihoods', 'growth'); and the fact that recent reviews have demonstrated that only very small numbers of high-quality research outputs are identified by systematic reviews on fragile and conflict-affected situations, making them a highly labour-intensive process that potentially produces little useful analysis. Given that the objective of the inception phase was to use a comprehensive literature review and stakeholder consultation process in order to identify and agree the most urgent and policy-useful research themes and activities for the next five years of the SLRC, it was important to view the literature reviews as a means to an end, not an end in themselves. Ensuring the process was effective in identifying our future research agenda required a broader approach than systematic reviews alone.

### Expert-led snowball

To complement the systematic review, a second approach involved a more orthodox approach to literature review but with safeguards to ensure robustness of sampling. Most literature reviews depend on a combination of searching and snowballing. In this case, we sampled the literature using a snowballing method but began with a robust and independent starting point. A range of researchers, viewed as experts in their respective fields, were asked to identify the 10 highest quality pieces of

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[31] Methodological quality was assed using scales from 1 to 5 (quantitative – the Maryland Scale of Scientific Methods (MSSM), qualitative – a scale developed for a previous Overseas Development Institute (ODI) systematic review) and a 'traffic-light' scoring system for the other determinants of quality.

research in their areas. The response was varied. Some experts saw the request as a test. Others acknowledged that quality research was at such a premium that they struggled to identify 10 examples. On growth, Karen Ellis (ODI) and Steve Hitchen (Springfield Centre) provided the starting points for our snowball. On livelihoods no experts responded, so we based our snowball on the recommendations of the SLRC chief executive officer and major cited publications from the Feinstein International Center. The references provided were then used as the starting point for a traditional snowball process in which the studies were first read and then mined for their references. This process was then repeated with the references of the new studies identified, and so on.

The expert-led snowball process was designed to ensure that the snowballing process was not subject to the research team's limited knowledge about the existing literature or biases about which websites should be searched. We were only partially successful in achieving this on livelihoods because so many recognised researchers work with ODI and the Feinstein International Center. However, the snowballs were successful in identifying a large number of review documents and provided the opportunity for the team to drill down into the literature and assess the extent to which highly influential literature reviews on fragile and conflict-affected situations are based on empirical evidence or on normative, intuitive reasoning.

### Orthodox literature search

The expert-led snowball approach was complemented by a wider review of the literature, conducted as gaps began to appear in the snowball and as interviews taking place as part of the global stakeholder consultation led to new literature being identified. The addition of this track was essential given the dynamic, fast-changing nature of the evidence base on fragile and conflict-affected situations. New research is continually published and different consortium partners have access to different networks through which they learn about new research. This track enabled the sharing of studies among SLRC partners and affiliates, drawing on literature identified by leading practitioners and policymakers and the identification of the outputs of the cutting-edge research on fragile and conflict-affected situations that is emerging with increasing speed and regularity.

Given that initial searching through tracks one to three produced a deficit of studies on both aid agency and state livelihoods policies and interventions in fragile and conflict-affected situations, the following additional search strategies were employed within the orthodox literature review to ensure we had uncovered all the available evidence in these specific areas. These included:

- Additional searching of academic databases and search engines using both broad search strings and specific livelihoods interventions.
- Hand-searching of pertinent journals, publications and institutional websites for material relevant to all 66 fragile and conflict-affected situations identified in Table 5.
- Hand-searching of institutional and government line ministry websites with a focus on 10 specific countries, namely Angola, Cambodia, Colombia, Haiti, Iraq, Liberia, Sierra Leone, Somalia, Tajikistan and Yemen.

## Synthesis and analysis

The three methods of evidence gathering fed into a rolling synthesis of findings compiled by the ODI team in relation to the inception phase research questions. The synthesis was subject to weekly review to facilitate continued reflection on the state of the evidence and identification of emerging themes in the literature requiring further investigation. Analysis presented in this review was arrived at through an identification of key issues across the full range of literature and the major issues surrounding growth and livelihoods in fragile and conflict-affected situations.

## Sector expert inputs

To complement the overarching analysis provided by the ODI team, specialists in growth (Karen Ellis, ODI Research Fellow and the Business and Development Programme Leader) and livelihoods (John Farrington, ODI Senior Research Associate) were contracted to provide specific analysis. Building on the evidence gathered by the three-track approach of the ODI team, the experts were tasked with producing a review and analysis of the literature on growth and livelihoods in fragile and conflict-affected situations. The inputs were limited to 10 pages and sought to assess, with specific attention paid to gender issues and geographical patterns:

1. What is known about the state of growth/livelihoods in fragile and conflict-affected situations?
2. What is known about the impact of interventions in growth/livelihoods in fragile and conflict-affected situations?
3. What is the quality of evidence?
4. What are the main research gaps and researchable questions?

Given the wide-ranging nature of the issues and sectors covered in the paper, it was deemed important to ensure sufficient high-level engagement with the technical themes within each expert area, and that no state-of-the-art research was missed. In this way, the expert inputs also provided a quality assurance mechanism within the research design of the paper.

# Annex 2: Growth diagnostics – a summary of key findings

**Table 6: Diagnosing growth constraints in conflict-affected economies – findings from a series of growth diagnostics exercises**

| Country/ region | Reference | How does conflict feature in the analysis? | Binding constraint(s) | Policy recommendation(s) |
|---|---|---|---|---|
| **Aceh (Indonesia)** | World Bank (2009a) | Post-conflict situation | ▪ Illegal extortion and security concerns of potential investors<br>▪ Lack of reliable electricity supply | ▪ Strengthen rule of law (local authorities should improve capacity of police and judiciary system)<br>▪ Address underlying causes of violence and security threats (local authorities should support economic growth and economic development in conflict-affected areas, focusing on at-risk and vulnerable groups)<br>▪ Reforms to remove illegal payments and taxes should focus initially on sectors that result in inclusive growth<br>▪ Promoting inclusive and widespread growth should be part of a broad strategy to address security and conflict<br>▪ Address existing inequalities in human and physical capital (improve skill set of rural poor, facilitate access to credit of those in fisheries and agriculture sectors) |
| **Afghanistan** | Ulloa (2008) | Post-conflict situation – violence and insecurity feature strongly in the analysis although, because of a lack of information, contacts and accessibility, analysis focuses on the economy of Kabul | ▪ Poor appropriability of returns on private investment owing to microeconomic risks in the form of weak rule of law, taxation on the formal sector and increased corruption<br>▪ Geography combined with lack of adequate infrastructure (in particular related to agribusiness and other potentially exporting sectors) | ▪ Further reform of tax collection process and agents, and reduction of 'nuisance' taxes and fees (semi-autonomous revenue authority required)<br>▪ Address widespread corruption (cut red tape; autonomous anti-corruption agency required)<br>▪ Focus investment in infrastructure projects directly related to increasing competitiveness in the tradable sector (i.e. beyond roads and energy towards irrigation, investments in agribusiness sector etc. + certification and training + improve access to land)<br>▪ Secure trade facilitation and transit rights in the region and exploit the regional and world market |

| | | | | |
|---|---|---|---|---|
| **Bangladesh** | Rahman and Yusuf (2009) | Consideration of conflict dynamics not apparent | ▪ Low levels of human capital<br>▪ Poor infrastructure<br>▪ Market failures specific to individual sectors<br>▪ Low levels of trade<br>▪ Corruption<br>▪ Cumbersome regulations | ▪ Tackle infrastructure bottlenecks<br>▪ Open new export markets, maintain existing ones, and resist protectionism<br>▪ Reduce regulatory and bureaucratic burden on private enterprise |
| **Cambodia** | World Bank (2009b) | Not strongly featured apart from in section on Cambodia's recent history | ▪ Entrepreneurs cannot identify projects with higher returns, given appropriation issues (microeconomic issues include disputes and corruption) and coordination along value chains<br>▪ High costs of electricity and logistics appear to be major constraints in relation to input costs<br>▪ Limited rural road coverage constrains the country's agricultural potential | ▪ Deepen Cambodia's integration, particularly in the East Asia region: address financial sector risks; manage the exchange rate more actively; Cambodia should position itself to take advantage of trade and investment opportunities; integrate into more complex value chains<br>▪ Management of natural resources must be sustainable<br>▪ Upgrade endowment to move into the next stages of development: develop infrastructure and human capacity; mobilise more savings; upgrade rural roads, agriculture public goods |
| **Colombia** | Melendez and Harker (2008) | Cessation of paramilitary violence and restoration of some public order associated with reactivation of economic activity | ▪ Poor appropriability owing to micro risks from government failures. Uncertainty from three sources of property rights found to be the most important determinant of investment decisions: public order; changing taxes; anti-competitive behaviour | ▪ Increase provision of access to financing at fair prices |
| **DRC** | Ulloa et al. (2009) | Analysis focuses on five provinces, two of which are post-conflict (South Kivu and Orientale) | ▪ Government failures (absence of rule of law, particularly uncertainty of legal and regulatory frameworks and low enforceability of contracts)<br>▪ Lack of finance (particularly damaging for the agriculture sector): causes do not appear to lie within the banking sector but instead government failures, such as prevalent predatory attitudes that push private firms and investors out of the formal private sector)<br>▪ Lack of infrastructure (energy and transport)<br>▪ In Orientale and South Kivu, conflict and insecurity are identified as binding constraints | ▪ No specific policy recommendations explicitly given<br>▪ DRC could perform better if the right institutions were in place. Policy interventions must therefore concentrate on a small number of key institutions that could act as a key 'lever' in removing the most visible symptoms of government failures |

| | | | | |
|---|---|---|---|---|
| **Kenya** | World Bank (2008) | Fragility of Kenya's political stability and general insecurity feature in the analysis | ▪ Overriding: political and macroeconomic risk<br>▪ Returns to investment are low (owing to high business costs related to infrastructure services and logistics bottlenecks) and risks to appropriation of returns by private investors are high (risks owing to corruption and security situation remain serious deterrents to investment)<br>▪ Access to finance is limited and costs are high for certain categories of borrowers, such as rural and small entrepreneurs | ▪ Assuming continued macroeconomic stability and that Kenya can keep political risk low, the growth strategy would focus on relaxing other constraints:<br>- Reduce cost of transportation services and improve reliability of energy supply<br>- Reduce costs and risks that stem from inadequate security and corruption<br>- Improve access to finance to small and rural entrepreneurs<br>▪ Range of more specific policy measures also offered |
| **Kosovo** | Sen and Kirkpatrick (2011) | Post-conflict situation. Analysis draws on features of conflict affectedness, including weak enforcement of property rights, poor infrastructure, political uncertainty | ▪ Costs of and access to finance (owing to poor domestic finance, in turn because of high-risk premium to lending)<br>▪ Low social returns to investment (owing to poor provision of public goods, especially electricity and transport)<br>▪ Weaknesses in rule of law, particularly in relation to property rights | ▪ Ease access to domestic finance<br>▪ Improve provision of public goods (electricity, transport)<br>▪ Make it easier for entrepreneurs to access funds for business start-ups<br>▪ Facilitate employment growth specifically: ease constraints on the growth of the smallholder agriculture sector; implement a growth strategy biased towards small-sized enterprises, especially in manufacturing; implement a public works programme related to construction and maintenance of road networks |
| **Nepal** | ADB et al. (2009) | Nepal's civil war features strongly in the analysis | Constraints on investment and growth:<br>▪ Weak governance and slow recovery from civil war<br>▪ Inadequate infrastructure, particularly in relation to electricity, irrigation and transport<br>▪ Poor industrial relations and labour market rigidities<br>▪ Inability to address market failures | ▪ Strengthen governance<br>▪ Accelerate infrastructure development<br>▪ Improve industrial relations and make labour markets more flexible<br>▪ Support expansion and diversification of the industrial base<br>▪ *More specific (and sequenced) measures also provided* |

| | | | | |
|---|---|---|---|---|
| **North-eastern Afghanistan (Balkh, Kunduz, Takhar, Badakhshan)** | Lea et al. (2011) | War considered the cause of Afghanistan's economic collapse. Violence and insecurity feature strongly in the analysis, although north-eastern provinces have experienced comparatively better security to other parts of Afghanistan. Nonetheless, 'the economy of North-East Afghanistan is currently shaped by the two dominant forces of aid and insecurity' | ▪ Insecurity (perceived *ex-ante* risk of regime change which creates uncertainty around the business climate, revenue streams and expropriation of business assets)<br>▪ Access to land owing to institutional factors (lack of adequately zoned commercial land; lack of credible system of land tenure; lack of serviced infrastructure)<br>▪ Public sector corruption (owing to its interplay with the land market and the barrier it forms to any investment requiring government permission)<br>▪ Province-specific constraints (e.g. access to finance in Balkh; provision of electricity infrastructure in Kunduz, Takhar, Badakhshan) | *Exercise purely diagnostic, not therapeutic. Thus, no policy recommendations given* |
| **Pakistan** | Qayyum et al. (2008) | Consideration of conflict dynamics not apparent | ▪ Poor state of governance<br>▪ Poor state of institutions<br>▪ Lack of competitive environment | *No specific policy recommendations given* |
| **Togo** | Lundstrom and Garrido (2010) | Political instability features strongly in the analysis | ▪ Governance issues, particularly political instability, corruption and governance efficiency<br>▪ Low investor trust in business–government relations<br>▪ High barriers and costs of doing business<br>▪ Both 'infrastructure' and 'access to credit' give mixed signals as constituting binding constraints | ▪ Reduce business costs<br>▪ Streamline costly and cumbersome business procedures<br>▪ Restructure the banking sector<br>▪ Improve coordination within key sectors (e.g. agriculture)<br>▪ Agriculture sector needs to be given special attention<br>▪ Diversify away from traditional business needs 'slowly but surely' |

| | | | | |
|---|---|---|---|---|
| **Uganda** | World Bank (2007) | Some aspects of the north's post-conflict situation feature in the analysis, e.g. the return of IDPs and expansions in the workforce | Analysis suggests that some binding constraints are more severe for some firms than others:<br>▪ Transport sector not efficient enough for exporters to offset the competitive disadvantages of geography and topography<br>▪ Electricity cost and access problems<br>▪ Coordination failures in infrastructure and education<br>▪ Costs of finance and infrastructure are more binding than other business costs | ▪ Maintain stable, market-friendly and private sector-oriented policies<br>▪ Do not neglect traditional agriculture while seeking to promote structural transformation, new exports and value addition<br>▪ Generate a rapid demographic transition with increased urbanisation<br>▪ Reduce transport costs<br>▪ Address coordination gaps in transport and power sectors<br>▪ Scale up infrastructure investments targeting exports and structural transformation<br>▪ Manage public infrastructure better<br>▪ Initiative improvements in financial intermediation through market-friendly measures<br>▪ Prioritise and sequence the growth strategy<br>▪ Link education policies to labour market demand |

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