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Early Economic Recovery in Fragile States  
Priority Areas and Operational Challenges

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## Executive summary

This paper focuses on **how economic activities can contribute to overall stability** as part of an integrated reconstruction strategy. This process is **to be led by the country itself as soon as possible**. The following research questions are addressed:

What type of early economic activities should be prioritized after conflict?

How can the impact of these projects be increased, and local partners put in the lead?

What are the main challenges to the implementation of these projects?

How can such projects be made more sustainable and embedded into longer-term economic recovery programmes, and national ownership be ensured?

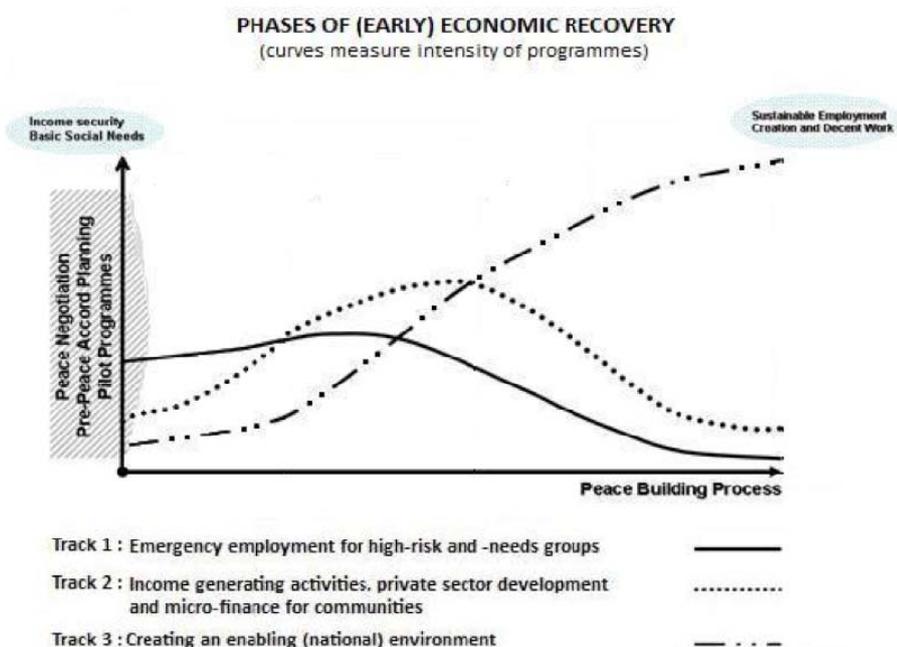


Figure 1: Phases of (early) economic recovery

(Source: UNDP/BCPR, Post-Conflict Economic Recovery: enabling local ingenuity, 2008)

The paper attempts to answer these questions on the basis of Figure 1. It sets out three tracks of economic interventions, which ‘peak’ at different moments in the peacebuilding process. Where the international community needs to ‘come in’, and what tracks and activities to emphasize, will be heavily dependent on the fragile state in question. For instance, in a country with little economic infrastructure (scattered private sector, weak state institutions) such as the Democratic Republic of Congo (DRC), it may be best to start with Track 1, and create emergency employment. In a more developed country like Colombia, where local institutions and the private sector are more efficient, it may be more beneficial to ‘begin’ with Track 2, and skip emergency employment altogether. However, it’s **fundamental that all three tracks are taken into account, and worked on from the start**. Economic interventions in the past have seriously **suffered from an overt focus on one set of activities**, only to run out of funding (or attention) when other, more broad-based interventions are needed. To make the process sustainable, it is important to start both short- and long-term economic reconstruction processes roughly at the same time. Short-term activities serve to stabilize by meeting the needs of the most vulnerable groups, while longer-term activities serve to consolidate the gains made and work on the preconditions for self-sustaining development. ‘Real’ development is not planned at the top, but created bottom-up, out of a maze of local initiatives. Nevertheless, **complementing bottom-up economic work with top-down capacity- and institution-building** will be crucial.

### **General challenges to project implementation**

Before moving on to the three tracks, two general challenges to project implementation should be mentioned: (1) **priority-setting** and political pressure; and (2) **lack of capacity**. To prevent disunity and to deliver immediate results, donors, multilaterals and the receiving state should clarify the objective and scope of economic interventions, carry out joint analyses, divide the tasks and modify their expectations. Local people are usually highly motivated to set up small businesses and get down to work. Next to capacity, mentality may be a problem as well. State institutions are rarely the objective broker one would like them to be, politicians being beholden to their own (often short-term) agendas and patronage networks. This is all the more reason to start building capacity as soon as possible, at both local and national level, and look for national and local ‘coalitions of the willing’ (from tribal leaders and village committees to bureaucrats and politicians) to change things for the better.

#### *Track 1: emergency employment for high-risk and high-needs groups*

Track 1 tends to receive the bulk of international attention immediately after conflict in countries where local economic institutions are lacking (such as the DRC and Afghanistan). To achieve some form of stability, it is useful to create

emergency employment for high-risk and high-needs groups such as ex-combatants, internally displaced persons (IDPs), returnees and unemployed youth, as these have the greatest potential to derail the peace process. The setting up of relatively simple labour-based projects in agriculture or infrastructure (building roads or houses, tilling the land, etc) may result in the creation of short-term jobs, combined with basic skills training and in some cases early provision of micro-credit to boost local entrepreneurship. With the location of projects strategically chosen, basic development may begin to take off. Working on these issues is a stopgap measure, however: as soon as possible, broader communities will have to be involved. Once armed incidents decrease, travel and trade improves, but the international community starts to crowd out local entrepreneurs, so it may be useful to shift the emphasis from Track 1 to Track 2 activities (which, as mentioned, should have begun at the same time as those of the first track).

*Track 2: income-generating activities, private sector development and micro-finance for communities*

The right time to engage with Track 2 will differ from one country to another: it could be at the starting point for interventions in some (more stable) countries or, conversely, opportunities may not open up until after emergency employment and other activities have succeeded in reducing instability to a certain extent. In such cases, the idea is to aid communities in becoming relatively self-reliant through working with local ‘coalitions of the willing’. More actors will be involved in this phase, and foreign funds may have an increasing impact on local markets. With the stakes rising, the process will become increasingly politicized as well. Activities in this phase could focus on infrastructure and agriculture, private sector development and micro-finance. The scope for infrastructure and agriculture may be increased, but this broadening will bring new challenges to the fore. Engaging effectively with agriculture, for example, should focus on enhancing consumption and improving markets rather than ‘just’ creating jobs. Private sector development (PSD) may create jobs and stimulate the local economy, which in fragile states tends to revolve around the ‘informal sector’. Companies may also be able to implement programmes where the institutional capacity to do so is still lacking. As there is usually no shortage of local initiatives, outside assistance may improve the competitiveness of individual companies through financial subsidies, cash vouchers, public-private partnerships or the setting up of business incubators.

The difficulties lie in the inflow of international funds squeezing local actors out of the market, the absorption capacity of local markets, and the political agendas of entrepreneurs. Micro-finance basically consists of offering grants or loans (credits) to creative individuals or groups, depending on their educational and economic assets and skills, to help set up small businesses or increase household incomes. Various experiments have been quite successful, including letting specific groups within villages jointly apply for loans, thereby increasing

social control over repayments. However, micro-finance alone will not suffice to provide the liquid resources needed for companies to grow over a longer period of time. Once communities start developing their own economic coping mechanisms, trade in the region increases, and national authorities begin to link their policies and actions to what is happening at a local level, it may be time to shift the focus of activities to the third track of interventions.

*Track 3: creating an enabling (national) environment*

There is a tendency in donor circles to focus their attention (and resources) on the 'direct', seemingly quick win- work of Tracks 1 and 2. However, at the same time as initiating activities 'on the ground' for high-risk and high-needs groups, it is crucial to **start building official capacity (on all levels) from day one** (Track 3), so the state can assume its economic responsibilities. Local gains and an enabling national environment should mutually enforce each other. Fragile states will differ fundamentally as to where to start building state capacity, depending on the quality of the institutions 'left standing'.

The timing of activities could be roughly determined on the basis of the momentum of the peace process. Immediately after conflict, when there is a high degree of mistrust between the protagonists, the best that can be hoped for may be some kind of bargain being struck between the various elite groups consisting of a basic working agreement on power- and resource-sharing. If in due time some measure of cooperation has been achieved between the competing groups, more options may open up. Making the national budget the central instrument of policy (and aligning donor funding with the budget cycle), or setting up independent service authorities, are both useful ideas. In the longer term, the state (ideally) should be able to set and **control the 'rules of the game' for a market economy**, so that individuals can access the legal tools and formal rights to support their own creativity. Through diversification of the market, risks will be spread and more opportunities will be created for (foreign) investment. The political will for painful changes might gradually develop through a multi-track process, as set out in the previous phases: bottom-up economic development, capacity-building at all levels and pressure from donors and the international community.

# 1. Introduction

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This paper is part of a larger research project on early economic recovery under the Peacebuilding and Stabilization Research Programme (PSRP), the cooperation framework between the Clingendael Conflict Research Unit (CRU) and the Peacebuilding and Stabilization Unit (PBSU) of the Netherlands Ministry of Foreign Affairs. The programme's objective is to support the PBSU in identifying a number of economic priority areas as part of the broader Dutch policy on fragile states.

## 1.1 Research rationale

Donor policies on post-conflict reconstruction generally focus on humanitarian assistance, rebuilding the security sector and supporting democratic processes, leaving economic issues rather vaguely described and to be dealt with later on in the peacebuilding process.<sup>1</sup> This is often not because the importance of economic reconstruction is not recognized (it is difficult to find a single policy framework on fragile states that does not mention it sooner or later), but rather because it is such a difficult field to operationalize in the complex circumstances in fragile states.<sup>2</sup> This paper suggests a number of options on how to deal with recurring dilemmas in early economic recovery programming. Key policy

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1 Van Beijnum, M., Specker, L. and Anthony, T., *Economische Wederopbouw na Gewapend Conflict: een beleidsverkenning* (Economic Reconstruction after Violent Conflict: a mapping of policy), Clingendael Conflict Research Unit, The Hague, December 2007.

2 The debate surrounding economic recovery also tends to be quite ideologically driven, between development economists who are proponents of the free market and those who are in favour of a more careful, state-centred approach to economic development.

documents and existing literature have been reviewed and in-country research was carried out in Burundi and DRC.<sup>3</sup>

The influence of the (political) economy on conflict and underdevelopment is a much-debated issue.<sup>4</sup> Conflicts may be driven by a number of factors, but the lack of economic opportunities for (mostly) young men to make a living in a peaceful way is certainly among them. War provides opportunities for strategic actors to improve their material position and keep their clientelistic networks intact.<sup>5</sup> An economy is usually heavily affected by conflict, which strips people of their assets, houses, food, livestock and employment. The destruction of (physical) infrastructure and of people's social networks further hampers economic recovery. Structural economic inequalities may also drive conflict, although it would be going too far to suggest a direct link between underdevelopment and war. Resources such as fertile land, water or mineral resources may create tensions when particular groups try to control them, or when reform of these sectors challenges vested interests. Power-brokers usually have a stake in dominant export goods (minerals, for example), leading to a lack of incentives to diversify the economy.

Fragile states often suffer from the 'resource curse': the presence of valuable resources, like minerals or oil, provides quick profits for anyone getting their hands on them (often warlords or less-than-savoury political entrepreneurs). The presence of valuable resources also tends to lead to 'Dutch disease': because the value of the currency rises through the export of resources, all other forms of export become more expensive, which damages the growth process and leads to deepening levels of poverty. All this results in a vicious circle, also referred to as a 'conflict trap': poverty fuels conflict and, in turn, conflict sustains and aggravates poverty.<sup>6</sup>

The difficult question is where to start economic recovery efforts? Those countries capable of making a fresh start after war may differ widely in terms of financial assets, human capital, functional economic sectors and the quality of their institutions. The formal economy may be in shambles after conflict and security issues are pressing. Establishing some form of stability to create a framework for future development tends (rightly) to be foremost in the intervening actors' minds. Where the minimal preconditions of security and

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3 Specker, L. and Briscoe, I., *Early Economic Recovery in Fragile State: case study Burundi, challenges to project implementation*, forthcoming 2009.

4 Van Beijnum, Specker and Anthony (2007); Collier, P., *The Bottom Billion: why the poorest countries are failing and what can be done about it*, Oxford University Press, 2007.

5 Chabal, P. and Daloz, J.-P., *Africa Works: disorder as political instrument*, The International African Institute in association with James Currey and Indiana University Press, 1999, pp. 77-92.

6 Collier, P., *The Bottom Billion; why the poorest countries are failing and what can be done about it*, Oxford University Press, 2007.

political will for reconstruction are met, however, economic initiatives can be tools for fostering stability after conflict.<sup>7</sup> In every post-conflict situation there will be a large number of people wanting to rebuild their lives and communities after living through hard times. There is often a huge potential reservoir of workers, farmers and entrepreneurs to build on ('indigenous drivers of change'). If these people are provided with new ways to make a living, and thereby shown the benefits of peace, they may be under less pressure to return to arms; this is referred to as the peace dividend<sup>8</sup>

It is therefore logical to integrate economic recovery efforts at an early stage into post-conflict reconstruction strategies. This paper is specifically focused on economic recovery during the early period after conflict, the period of time during which tensions are still high and activities must be implemented in difficult circumstances. It concentrates on **economic activities contributing to overall stability as part of an integrated reconstruction strategy**.<sup>9</sup> To make this process sustainable, it is important to start as early as possible with both short- and long-term economic reconstruction processes (known as the two-track approach).<sup>10</sup> Short-term activities serve to stabilize by meeting the needs and increasing the resilience of the most vulnerable groups, while longer-term activities aim at consolidating the gains made, and work on the preconditions for self-sustaining development. Finally, economic recovery is to be led as soon as possible by the country itself (ownership).

Yet, this is easier said than done. Economic reconstruction in fragile environments differs from development in normal situations.<sup>11</sup> As timing is essential, resources finite and local partners scattered, the main challenge facing policy-makers is that of prioritizing.

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7 UK Department for International development (DfID), *Stabilisation through Economic Initiatives: private sector development*, Issue Note, Stabilization Unit, 2009.

8 Collier, P., Hoeffler, A. and Soderbom, M., *Post Conflict Risks*, Centre for Study of African Economies, Department of Economics, University of Oxford, 2007.

9 OECD-DAC: principles for good humanitarian engagement in fragile states and situations, 2007.

10 USAID, *A guide to economic growth in post-conflict societies*, January 2009; Van Beijnum, Specker and Anthony (2007); Specker, L., *Integrating Socio-economic recovery into stabilization programmes*, Policy Brief, Clingendael Conflict Research Unit, 2008.

11 Castillo, del, G., *Rebuilding War-Torn States: the challenge of post-conflict economic reconstruction*, Oxford University Press, 2008.

## 1.2 Research questions

This paper will attempt to answer the following research questions:

What type of early economic activities should be prioritized during the immediate phases after conflict?

How can the impact of such projects on stability, peacebuilding and development be increased and local partners be put in the lead?

What are the main challenges (political and technical) for the implementation of such projects?

How can such projects be made more sustainable and embedded into longer-term economic recovery programmes, and national ownership be ensured?<sup>12</sup>

This paper sets out the definition, goals, timing and main actors in early economic recovery (Chapter 3), and suggests an approach to the topic on the basis of three partly overlapping tracks of economic interventions, which ‘peak’ at different periods of time. Chapter 4 addresses a number of general challenges inherent in economic recovery programming, having to do with prioritising and the lack of capacity in fragile states. The first track (Chapter 5) focuses on short-term employment creation for high-risk and high-needs groups to stabilize a potentially explosive post-conflict situation. The second track (Chapter 6) theoretically assumes a minimum level of stability has been achieved and focuses on the wider communities with an expanding set of programme activities: infrastructure and agriculture, private sector development and micro-finance. The third and final track (Chapter 7) deals with the development of institutions to consolidate the gains made at the communal level and to create an enabling environment for self-sustained growth.

### Box 1: ‘Disclaimer’

Before continuing to the main part of the paper it is important to first set out a few disclaimers. First of all, this paper is a general study into early economic recovery and thus by definition an aggregate of lessons learned in widely differing contexts. Second, by using tracks it is not suggested that there are neatly circumscribed phases that every post-conflict situation will go through, or that there is a linear continuum from one conflict phase to another. It also does not suggest that economic recovery will lead to a reconstitution of the status quo that existed before the war (which in any case may not be desirable).

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12 The paper builds on, among others, the recent UNDP/BCPR publication, *Post-conflict economic recovery: enabling local ingenuity*, 2008 and the joint UNDP/ILO policy paper, *Post-conflict Employment Creation, Income Generation and Reintegration*, 2008.

Moreover, this paper assumes that the economic situation in a particular country can be improved by some form of economic programming, which may not always be the case. For instance, if illegal mining provides individuals with more benefits than an 'honest' job ever will, and if the sector is so politicized create more conflict, economic recovery projects may have only a small impact, if any at all.

Every conflict situation will have its own dynamics, and successfully engaging with it will require flexible out-of-the-box thinking. **Economic recovery is not social engineering, and this paper is not a manual** or a how-to-guide. Nonetheless, using the 'ideal types' of the three tracks will allow us to investigate the available activities more clearly. Economic reconstruction should never 'stand alone', but be embedded within a more holistic approach to the reconstruction of fragile states. Other programmes aimed at improving governance or the security sector create circumstances that make economic programmes more effective. However, this paper has a specific focus on economic activities; it will not address other peacebuilding activities.

Finally, this paper tries to work towards an enabling environment for self-sustaining economic growth without overtly proposing a specific economic model for it. Debating future models at this time can be speculative at best. However, the paper leans more towards bottom-up market development than it does towards a top-down 'developmental state' perspective. Both perspectives have their pros and cons, but the conditions in most fragile states may not be ideal for a system where the state sets the framework for economic development.



## 2. Early economic recovery: concepts, goals, timing and actors

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After a conflict has ended, attention given to humanitarian aid, political and security developments often prevails over attention to economic recovery. Both the international community and national actors have a large number of matters on their hands, and a process with relatively uncertain outcomes such as economic recovery may attract less attention than security issues do. When the topic of economic recovery is eventually put on the agenda, it is often as a part of ‘normal’ development strategies, designed for poor but otherwise relatively stable developing countries.<sup>13</sup> This is not surprising: most tools for economic measurement and statistics have not been designed for fragile states circumstances, where geographical areas may be inaccessible, people are on the move, coalitions of power constantly shift and most of the economy is ‘unofficial’ at best. Even now, the term ‘early recovery’ is used in diverse ways (see Box 2). To be able to identify early economic priority areas, some clarification of the concept of early economic recovery in terms of its objectives, its scope (target groups) and its timing is needed.

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13 Van Beijnum, Specker and Anthony (2007).

*Box 2: Different concepts of early (economic) recovery*

This paper aims to be as hands-on as possible and will only briefly address the various understandings of early recovery (of which economic recovery is part).<sup>14</sup> Perceptions of early recovery usually differ depending on whether one looks at these activities from a humanitarian or a developmental perspective. Technically speaking, ‘early recovery’ should be above this debate as it is commonly defined as a period of time more than anything else: the period in between the humanitarian phase (during and immediately after conflict) and the developmental phase (the medium- and long-term period).<sup>15</sup>

However, the economic activities commonly deployed under its banner may differ in objectives, scope and mandate, according to which side of the humanitarian–development divide they emanate from.

Generally speaking, humanitarian or relief organisations deliver aid without involving the host country’s institutions and they seek to restore some semblance of the pre-emergency status quo by tackling the immediate and serious threat to people’s lives. Humanitarian aid strives to be impartial: through the promotion of livelihoods, people are saved regardless of their political affiliations. For humanitarian actors, early economic recovery tends to be linked to sectoral efforts to boost livelihood-creation activities at the community level.<sup>16</sup>

Development aid, by contrast, engages primarily with the state in question with a view to changing the existing status quo for the better, by addressing the problem of unequal economic growth, building capacity and creating effective state ownership of self-sustaining development. It is purposely transformative and therefore a political process. Actors from both the humanitarian and the development ‘sides’ using similar terminology while holding different views would not be all that problematic, were it not for the fact that in the complex circumstances of fragile states, both may deploy ‘early recovery’ activities at the same time and sometimes in the same areas. Their different frameworks may then cause quite a few problems: if, for instance, humanitarian actors provide aid as handouts to affected people, there will be much less of a market for development actors focusing on training and micro-loans, which are not free and require more effort from people. Coordination is obviously a key issue.

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14 For a more detailed outline of the concept of early economic recovery, see also: R. Maier, *Early Economic Recovery in Post Conflict Countries: a conceptual study*, Clingendael Conflict Research Unit, forthcoming 2009.

15 UNDP/CWGER (2008), Guidance note on early recovery.

16 Banfield, J., Gündüz, C. and Killick, N. (eds), *Local Business, Local Peace: the peacebuilding potential of the domestic private sector*, International Alert 2006, p. 10.

Finally, development actors themselves may use several terms for economic recovery that have roughly the same meaning. Economic reconstruction, economic rehabilitation and economic reform are frequently used interchangeably. 'Early recovery' is a concept used mainly by the United Nations.

Broadly speaking (and linguistic differences aside), proponents of early economic recovery tend to have either one or the other of two different objectives in mind. One is initiating or catalysing development, a more long-term view of economic recovery where interventions contribute to economic development and stability. The other objective is contributing to (political) stability in the short term, by providing potentially high-risk groups with alternatives to returning to violence and stabilizing communities through economic activities, thereby laying the foundations for future economic development. It should be noted that these two standpoints are stereotypes of sorts, but in reality, they are not mutually exclusive (both recognizing the other's pros and cons), and nor can all practitioners be divided into such neatly delineated groups. This paper will focus mainly on the second-mentioned objective as a precondition for the first, but acknowledging that in an ideal situation both courses would be pursued in an integrated manner.

## 2.1 Initiating development

To many practitioners, early recovery has a **broad-based** development **focus**. The United Nations Development Programme (UNDP), for instance, puts a heavy emphasis on socio-economic elements of recovery, sometimes more so than on political/security elements. This approach focuses from the outset on communities, not just particular high-risk groups.<sup>17</sup> According to the development line of thought, the first priorities of early economic recovery should be to support livelihood creation at community level, assist in the protection and rehabilitation of productive assets and infrastructure, and build basic capacities for economic governance.<sup>18</sup> Communities cannot prosper unless private investment (re-)creates markets and generates employment. Structural economic reform and sound macro-economic policies should be worked out as soon as possible to sustain peace in the long run. This line of arguments often concludes that "the short term high-impact approach that is currently favoured

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17 Tony Addison, for example, argues that "unless communities rebuild their livelihoods, neither construction nor growth will be broad based".

18 *Taking Stock, Looking Forward: A Strategic Review of the Peacebuilding Commission*, NYU Centre for International Cooperation (CIC) and the International Peace Institute (IPI), April 2008, p. 1.

is not conducive to sustainable post-conflict reconstruction and ultimately results in higher costs to both the internal and external actors”.<sup>19</sup>

The main problem encountered in this approach concerns prioritization. Everything seems to be needed in post-conflict environments and a broad (maximalist) focus on development risks losing sight of what is needed in the short term to stabilize the environment. “When economic recovery is so ‘maximalist’ as to encompass all aspects of socio-economic well-being [... such a definition] runs the risk of conflating recovery from conflict with overcoming underdevelopment more broadly.”<sup>20</sup> It may lead to fragmentation of international policies, as every donor, non-governmental organization (NGO) and international organization will have its own particular view of what is needed. Moreover, there are not many best practices in existence regarding how to fundamentally reorient an entire economic system for the better. The instruments used in the past to foster ‘durable economic growth’ in developing countries have been heavily criticized as being based too much on the ‘Western experience’: rapid market liberalization as encouraged by the structural adjustment- programmes of the 1990s has undermined stability in several cases, because of the absence of national institutions to regulate fair competition.<sup>21</sup>

## 2.2 Contributing to (political) stability

This paper focuses more specifically on the alternative view, i.e., economic programmes must first and foremost contribute to **stability**, so as to create the preconditions for durable development and state-building. The end of a conflict tends to create high expectations for the delivery of concrete political, security, social and economic dividends. **Visible dividends** that are the within the remit of national authorities, including early employment generation and support provided to returnees, are critical to building confidence in the government and the peace process. It is crucial to get the authorities – national, provincial or local – involved as soon as possible and to build their capacity so they can take over in due course and prove to their people they are fit to govern. This top-down ownership of the agenda is complemented by bottom-up work on livelihoods and businesses, building on the survival strategies people developed during conflict and on their own creativity, to generate new initiatives. ‘Real’ development is not planned at the top, but rather is a bottom-up process, created out of a maze of local initiatives. By improving stability, the basic

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19 The New Partnership for Africa’s Development (NEPAD), *African post-conflict reconstruction policy framework*, p. 23.

20 United Nations Development Programme (UNDP): *Post Conflict Economic Recovery; enabling local ingenuity*, BCPR report, 2008.

21 Paris, R., *At War’s End: Building Peace After Civil Conflict*, Cambridge University, 2004.

conditions are created for longer-term (and more equitable) growth, but growth and development as such are not immediate priorities.

The stability perspective generally advocates for a **minimalist approach**,<sup>22</sup> focusing initially on setting up economic activities that will take potential troublemakers off the streets, and when things calm down move on to communities in high-risk areas. The more limited goal of contributing to stability will make it easier for national authorities and the international community to set joint priorities. At the same time, though, it will make the drawing up of economic programmes a lot **more political**, as it engages directly with some very sensitive groups and influences the state's internal arrangements. For instance, taking the sting out of armed groups (by providing opportunities for former combatants to hand in their arms) may weaken their position vis-à-vis the government and without corresponding political dialogue may lead to further conflict. Moreover, giving precedence to the stabilization of particular groups and areas over general development is undoubtedly unfair, as it will neglect people who are possibly more deserving of assistance. Early economic recovery requires constant consultation and dialogue with national and local power-holders (government and civil society), so that interventions do not create further tensions. Another drawback of this approach is that over-emphasising short-term goals may mean overlooking what has to be done to ensure transition towards more sustainable development in the future. Without embedding this approach into a broader development framework, there is a risk that improvements remain temporary or localised at best.<sup>23</sup> **Doing no harm to future development is crucial.**

### 2.3 Timing

Having an idea of the objective of early economic activities does not yet answer the question of timing: when to go in and implement what type of programmes? Recent research highlights the need to **start as early as possible** with economic recovery to promote peacebuilding, preferably during the later phases of conflict, or in its immediate aftermath.<sup>24</sup> As conflict dynamics constantly change, and different phases of conflict require different methods of intervention, it is clear that there is no universal 'package' of interventions that

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22 *Taking Stock, Looking Forward: A Strategic Review of the Peacebuilding Commission*, NYU Centre on International Cooperation (CIC) and the International Peace Institute (IPI), April 2008.

23 *Taking Stock, Looking Forward: A Strategic Review of the Peacebuilding Commission*, NYU Centre on International Cooperation (CIC) and the International Peace Institute (IPI), April 2008. pp. 1-2.

24 Report of the Secretary-General on peacebuilding in the immediate aftermath of conflict, A/63/881-S2009/304, p. 1.

is appropriate to handle all the challenges of a post-conflict environment. Figure 2<sup>25</sup> sets out various ‘tracks’ of economic interventions after conflict, and will be used as a framework for the following sections of this paper.

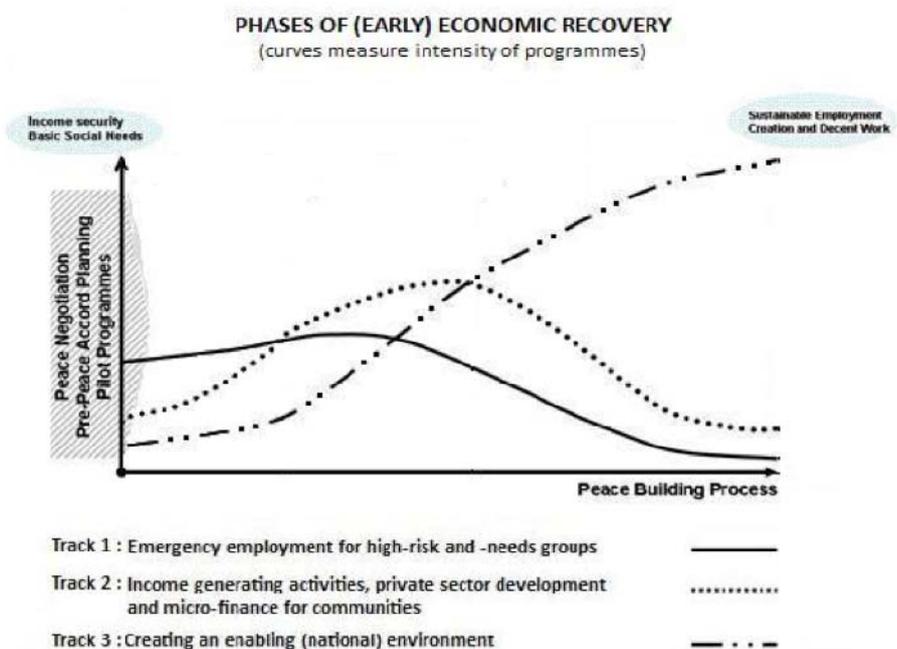


Figure 2: Phases of (early) economic recovery

(Source: UNDP/BCPR, Post-conflict Economic Recovery: enabling local ingenuity, 2008)

The figure is relatively straightforward: the more momentum the peacebuilding process creates, the more stability is created, meaning that other, more broad-based economic activities can be set up and implemented. However, it is absolutely crucial to work holistically: **from day one, all three tracks should be worked on, but the intensity should differ according to the situation the country is in.** The question is therefore not just ‘when to do what’; all three are carried out, just at different levels of intensity over time. Depending on the momentum of the peacebuilding process, different tracks should be emphasised and should ‘peak’.

25 Based on a UN figure in Employment Creation, Income Generation and Reintegration in post-conflict settings, UN system-wide policy paper, May 2008.

**Track 1** focuses on *emergency employment for high-risk and high-needs groups*, and peaks in the early phases after conflict: these programmes target specific conflict-affected individuals by way of short-term responses such as temporary job creation. This may deter high-risk groups from becoming ‘spoilers’ and derailing the fragile peace, and it may kick-start small-scale economic recovery.

**Track 2** peaks somewhat later and focuses on *income-generating activities, private sector development and micro-finance for communities*, to try to consolidate the stability gained during the first phases after conflict. This track has a broader scope than the first one, focusing on communities so as to remove the root sources of conflict, by way of capacity- and institution-building.

**Track 3** is basically what the first two tracks work towards: *creating an enabling national environment* by working on policies and institutions and setting the ‘rules of the game’ for durable economic development.

Post-conflict countries differ fundamentally, and so should economic interventions: the international community **should assess carefully where to ‘drop into’ the tracks above**. For example, in a country like the DRC, lacking an institutional framework for economic recovery, it might be best to start off with Track 1 in order to get the spoilers off the streets, and in due course carefully expand programming to communities (Track 2). In a completely different kind of country such as Lebanon, where despite recent conflict the private sector is still active, it might be best to forget about emergency employment and begin with Track 2 activities straight away. No matter where the focus lies, however, **it is crucial to plan (and budget) for the long term**: for instance, many economic recovery processes have stalled or even ceased because all the efforts and resources were put into Track 1 and too little attention was paid to the other tracks. Again, in every fragile state all three tracks should be engaged with from the very beginning but, depending on the momentum of recovery, different elements should be emphasized. This means highly context-specific choices will have to be made. The remainder of this paper will examine these three tracks. For each track it will set out the target groups, activities, risk factors, and policy implications.

## 2.4 (International) partners in early economic recovery<sup>26</sup>

Although economic development is largely a bottom-up process, dependent on the creativity and assertiveness of local people, a number of international institutions and actors can help this process along. Each of these institutions has its own particular (sometimes overlapping) mandate, strengths and weaknesses.<sup>27</sup> The most prominent institutions engaged with the economic process (apart from bilateral donors) are international NGOs, the UN, the World Bank (and the affiliated International Finance Cooperation – IFC) and the International Monetary Fund (IMF). Broadly speaking, one could say the UN is focused on implementing activities and building local capacity in the field to create a peace dividend, and the two Bretton Woods institutions are focused on building state capacity and an enabling environment for future growth.

Since economic development will depend on communal processes, however, it is useful to address **(international) NGOs** first. NGOs, whether they operate in the relief or the development sphere, will be crucial partners in early economic recovery. Usually they have remained in a country during the conflict, have **local partners** and can provide the international community with a ‘way in’ to start working with local groups. NGOs may also provide basic services to help people survive until development takes off. They provide international organisations with a trustworthy channel for financing local groups and implementing activities. It is important to be careful, however, in selecting civil society partners; a number of NGOs have taken sides in conflicts, or are perceived to have done so, which makes them less useful partners in dealing with certain groups. NGOs also have their own agendas and may favour their own local partners over others. Nevertheless, during the early phases after conflict, they do play an important role.

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26 For an extensive discussion of the economic recovery policies of the various donors and international agencies, see R. Maier, *Early Recovery in Post-Conflict Countries: a conceptual study*, Clingendael Conflict Research Unit, (forthcoming 2009), which is part of the same research project on early economic recovery in fragile and post-conflict environments.

27 For an overview, see Van Beijnum, Specker and Anthony (2007), pp. 37-46.

Approach	Advantages	Disadvantages	Civil Service Role	Monitoring and Control
Contracting through and/or providing grants to foreign organizations	Quick Quality work Least corruption	Expensive No local capacity built Not accountable except to donor May undermine legitimacy	Marginal	Donors
Domestic NGOs	Quality of work Less expensive Flexible work force Less corruption	More expensive than host government Cannot meet all need	Marginal	Donors Public opinion
Private sector competition	Consumer choice drives quality and price	Market failures Imperfect consumer knowledge Insider privatization sell-offs	Minimal involvement Easily corrupted	Market
Devolution	Tailored services Flexible Citizen control Local accountability	Local elites dominate Local corruption Increased inequality among localities	Local expansion Fragmentation of career services Opposition to decentralization	Local citizens
Line bureaucracy	Experience in place Incremental expansion feasible	Bad habits persist Serious reform more difficult later on	Main service delivery agency	Accountability mechanisms of central government

Figure (table) 3: Actors in post-conflict delivery systems<sup>28</sup>

(Source: USAID, A guide to economic growth in post-conflict societies, January 2009)

The UN has several institutes dealing with economic recovery which, in the interest of the ‘One UN’ concept, coordinate their efforts in each country. **UNDP** officially coordinates all UN efforts aimed at economic recovery. In the early phases after conflict, this often means close collaboration with humanitarian agencies (such as the **UN High Commissioner for Refugees – UNHCR and the World Food Programme – WFP**), in order to ensure that humanitarian and economic efforts do not work at cross-purposes, as well as with agencies involved in improving security (such as the **Department of Peacekeeping Operations – DPKO**), so that efforts on the economic front can take off.<sup>29</sup>

Another important specialised UN player is the **International Labour Organisation (ILO)**. This tripartite organization brings together representatives of governments, labour organizations and employers to jointly develop labour policies and activities that will improve people’s working conditions and social security, thereby adding to equitable development and decreasing social tensions. By working with local cooperatives, the ILO takes a

28 USAID, A guide to economic growth in post-conflict societies, January 2009, p. 12.

29 Other UN partners also working on (early) economic recovery in fragile states are UNIFEM (empowerment of women), UNICEF (children’s development), the UN Human Settlements Programme (UN-HABITAT, on housing conditions) and the Food and Agriculture Organization (FAO, on sustainable livelihoods).

bottom-up approach to development and can be an important player for building institutions and norms. It should be noted that UNDP's coordinating skills and its lack of in-country capacity to fulfil its role have occasionally been criticized.<sup>30</sup> UNDP nevertheless remains one of the largest programmatic players in the field of economic recovery. The various UN institutions are best placed to engage with economic recovery when there is little field capacity present. A useful UN tool in this phase is the **Post-Conflict Needs Assessment** (PCNA) developed by the UNDP's UN Development Group (UNDG) in cooperation with the World Bank, which maps a country's needs after conflict. On the basis of this tool, a government is often better able to write its **Poverty Reduction Strategy Paper (PRSP)**, on the basis of which the World Bank and the IMF can lend money and set up funds.

*Box 3: Poverty Reduction Strategy Papers (PRSPs) and the Peace Building Fund (PBF)*

PRSPs set out the official development priorities of a government. A PRSP usually covers a period of five years and can be (very) broad in its scope, taking in issues of governance, security, sustainable economic growth and the development of human capital. In most fragile states, however, it will tend to be skewed more towards security and governance issues. A PRSP is written by a country's government, with the support of UNDP.<sup>31</sup> As development gets under way, follow-up documents are often written and in due course management of the process is handed over to the World Bank.

The World Bank will subsequently write a *Country Assistance Framework* (CAF), which brings together the multilateral institutions and the bilateral donors around a common set of priorities. When the Bank takes over, long-term durable economic recovery tends to be given more attention than is the case during the early phase, where economic recovery mainly serves as a tool for stabilization.

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30 See also section 4.2 on implementation capacity

31 A 2005 World Bank/IMF review noted that national participation in PSRP processes tended to be *broad* rather than *deep*: parliament was not always fully engaged in every exercise.

PRSPs provide the international community with a development framework to engage with and to synchronize their efforts around, but the major financing institutions (donors, UN, World Bank, IMF) have still been criticized for their shortcomings in doing so. This is one of the reasons why the *Peace Building Commission* (PBC) was founded, including its *Peace Building Support Office* (PBSO), which aims to bring the various international actors together under a common strategy. The PBC/PBSO presides over the *Peace Building Fund* (PBF), a pooled fund that covers funding gaps for specific programmes so that implementation can get under way quickly. The PBF is rightly praised for doing so, but there have been instances in which the use of the fund led to coordination difficulties in particular cases where the activities it was funding overlapped with activities under the PRSP. Integration of PRSP and PBF activities is not yet happening in the way it ought to be.<sup>32</sup>

The **World Bank** is the world's largest provider of technical and financial assistance to governments, and therefore the **lead actor in the field of institutional (economic) capacity-building**. The Bank concentrates on building state capacity for healthy financial governance, and offers loans with low interest rates, credits and subsidies. These are granted on the basis of the Bank's own conflict sensitivity assessments, which focus specifically on patterns of distribution of resources within a society. One of the strong suits of the bank is its **analytical capacity**: it continuously monitors the economic situation of a country throughout a conflict, its aftermath and the period of reconstruction, in order to ensure the best possible base for economic interventions. It should be noted, however, that the Bank tends to focus more on 'formal' institutions and policies than it does on the informal sector, and this means it may overlook important dynamics in fragile states.<sup>33</sup> The Bank has also set up the Multilateral Investment Guarantee Agency (MIGA), which helps to provide insurance cover for investors and also provides small funds for private sector development.

A number of development organizations make up the 'World Bank Group', one of the most important being the **International Finance Corporation (IFC)**. The IFC's remit is to **finance private sector investment**, and to provide advisory services to businesses and governments (specifically on corporate governance and removing roadblocks to private sector development). It

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32 In Burundi, the two agendas also served a political goal, i.e. the delicate process of power-sharing as negotiated under the Arusha Agreement. One of the two vice-presidents has a leading role in the development agenda (PSRP), the other in the peacebuilding agenda. For a more in-depth discussion, see L. Specker, *Early Economic Recovery in Fragile States: case study Burundi, challenges to project implementation*, Clingendael Conflict Research Unit, forthcoming 2009.

33 Bell, E., *The World Bank in fragile and conflict-affected countries; 'How', not 'How Much'*, International Alert, May 2008, pp. 6-7.

provides loans to relatively large companies that are willing to be active in fragile states: a maximum of 25–35% of the total estimated project costs, although exceptions can be made. The IFC generally does not lend to the sort of small and medium-sized enterprises (SMEs) that are prevalent in fragile states, but many of the larger companies it finances do act as intermediaries to these smaller businesses. The **IFC's Conflict Affected States in Africa** programme (IFC CASA) is an exception to this rule, however, and is aimed at providing technical support to the private sector during the early phases after conflict.<sup>34</sup> IFC CASA aims at improving the environment for business by aiding regulatory reform and supporting financial institutions, chambers of commerce and banks. It also gives indirect financial support to SMEs (by way of SME Ventures) and attempts to involve the private sector in rebuilding infrastructure.

The World Bank is often asked to manage multi-donor trust funds (**MDTFs**) for reconstruction projects (as in Sudan and Afghanistan) and has set up its own Post-Conflict Fund for small grants to governments. Despite its dominant role in post-conflict reconstruction, the World Bank has an **apolitical mandate** and adheres to this quite fervently: it is a financial institution, and does *not* get involved in political discussions, conflict resolution or diplomacy. On the few occasions where the Bank has stretched the limits of its mandate (as during its management of the Multi-Country Demobilization and Reintegration Programme [MDRP] in the Great Lakes Area), there has been a great deal of institutional resistance. The Bank defines the fragile states it is involved with as its 'clients' and, although certainly not blind to problems of corruption and competing political agendas, is not likely to undertake actions that could be seen as trespassing on the receiving state's sovereignty, even when a government is clearly illegitimate in the eyes of many of its people.

The World Bank is **not necessarily the most flexible organization**, and **neither is it able to act quickly in the immediate post-conflict phase**, as decisions on funds and programmes must follow quite long internal procedures and be debated extensively with the host government before being implemented. Another problem is that, although the overall skills of Bank staff tend to be high, there is often a lack of staff on field postings. The Bank appears to be working to remedy this situation, however. The IFC, too, has recently started a decentralization process, moving a significant number of staff to field positions.

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34 The programme is now being piloted in Central African Republic (CAR), DRC, Liberia and Sierra Leone. Togo, Côte d'Ivoire, Burundi and Zimbabwe are all under consideration for future CASA start-up programmes.

While the World Bank focuses on financial capacity-building and micro-economic development, the **International Monetary Fund (IMF)** focuses on creating a healthy macro-**economic climate** for future development. The IMF gives loans to countries with payments deficits, on condition that they reform their economic system towards a more market-oriented model, and it builds a government's capacity to implement fiscal and financial policies.<sup>35</sup> The Fund usually does this in tandem with the World Bank; for instance, through their combined **Financial Sector Reform and Strengthening Initiative (FIRST)**, which helps countries implement the World Bank's *Financial Sector Assessment Programmes (FSAPs)* and the IMF's *Reports on the Observance of Standards and Codes (ROSCs)*. These assessments give the financial institutions an indication of the economic situation a country is in, and of where its economic weaknesses and opportunities are to be found.

The IMF has two financing instruments at its disposal for engaging with fragile states. IMF emergency assistance can rapidly disburse finances to address urgent balance-of-payments problems in the wake of conflict, to prevent a state from collapsing even further. The loan has to be paid back in 3 to 5 years, however, which is often more than a fragile state is capable of. The Poverty Reduction and Growth Facility (PRGF) is the IMF's low-interest lending facility for all low-income countries. The PRGF is more of a medium- to longer-term facility, as it is based on countries' PRSPs and long-term development plans. In addition to its financial and economic policy assistance, the IMF can help countries **stabilize their inflation rate**, which usually falls significantly after conflict. For example, by linking the local currency to the US dollar ('dollarization') and backing the money supply with foreign currency (currency board arrangement), it may be possible to reduce currency volatility, which should have beneficial effects on marketplaces all over the country. Despite its macro-economic focus, the Fund has the potential to be one of the first actors on the scene in fragile states.

A number of **regional development banks** are also active in the post-conflict sphere, the most notable being the African Development Bank (AfDB), the Inter-American Development Bank (IDB), the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD). Getting these banks involved as soon as possible is quite beneficial, as it may create a greater sense of ownership over the development process than would be the case if only (perceived) 'Western' institutions like the World Bank and the

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35 The IMF has lost some of its 1990s zeal for rapid market liberalization (the 'structural readjustment programmes'), recognizing that liberalization without the existence of regulating institutions could have adverse effects. The *New Guidelines of Conditionality* (2002) do not mention post-conflict countries specifically, but they do explicitly state that the circumstances of the country must be taken into account when discussing reforms.

IMF were involved. Nonetheless, not all of these banks have yet developed clear frameworks for working in fragile states, and the nature of their engagement will differ fundamentally according to the particular country.

The **AfDB**, however, seems to have taken important steps forward in the last few years, culminating in 2008 with its *operational framework for engagement in fragile states*, which takes a long-term view of economic recovery. The AfDB has set up a *Fragile States Facility* (FSF) as a financing vehicle for its priorities in the framework.<sup>36</sup> The FSF focuses on three pillars: (1) *supplemental support*, based on a country's performance, for a wide range of economic recovery operations (infrastructure, institutional capacity-building, etc); (2) (partial) *arrears clearance*, to enable countries to normalise their relations with the AfDB group; and (3) *targeted support* for capacity-building and knowledge management, and service delivery through non-state actors.

The **European Union** (EU) is the world's largest donor of development aid. It supports the African Union's (AU's) peacekeeping efforts (through its *African Peace Facility*) in fragile states, has made the eradication of poverty the central pillar of its development policy<sup>37</sup> and played an important part in the Paris agenda for good humanitarian engagement. Since the 2005 *Strategy for Africa*, EU funding has clustered around support for agriculture and agribusiness, involving local government in economic planning for rural areas, and support for food security. The EU has made employment a development priority and works closely with the ILO to set standards and get local economic actors to work together. The EU also works on private sector development in five priority areas: (1) improvement of regulatory frameworks; (2) cooperation between enterprises; (3) facilitation of investment financing through, among others, the **European Investment Bank**; (4) support for small- and medium-sized enterprises through the Centre for the Development of Enterprise; and (5) support for micro-enterprises and micro-finance in consultation with the Consultative Group to Assist the Poor programme (CGAP). The EU organizes periodic **EU-Africa business forums**. The European Commission is currently in the process of preparing an implementation plan for development aid in fragile states, to be released this year (2009). It is also working on setting up a Stability Fund, managed by the European Investment Bank, to stabilize fragile financial systems in Eastern Europe.

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36 Technically speaking, the FSF is the continuation of the AfDB's former Post-Conflict Countries Facility (PCCF) and continues to work on a number of issues the PCCF was already engaged with. The FSF, however, focuses on a wider range of countries and activities.

37 As agreed in the 2005 European Consensus on Development policy statement. The common EU vision centred rather broadly on reducing poverty, and supporting democratic values and local ownership.

Finally, the **Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD/DAC)** brings together governments that have committed themselves to democracy and the market economy, and provides a platform for discussions on economic development. Most importantly, the DAC sets agreed norms for donor engagement in fragile states, in effect making itself the **'thematic coordinator'** for the donor community.



### 3. General challenges to project implementation

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In the implementation of early economic recovery programmes, a number of general challenges emerge, mostly related to priority-setting, political pressure and capacity shortages. It is worth addressing these issues here, as they will be highly relevant to the discussion of all of the three tracks in the following chapters.<sup>38</sup>

#### 3.1 Priority-setting and political pressure

With many competing needs, priority-setting for early economic recovery requires some type of vision and a strategic plan for short- and long-term activities: something the national actors, key actors in civil society and the international community can rally around. Ideally, the state in question should take on this coordinating role, but in reality it often lacks the capacity (or legitimacy) to do so. If there has been no prioritization, ad hoc economic recovery programmes may be set up, on the basis of (perceived) urgent needs on the ground. After attention-grabbing conflicts, programmes and funds usually abound, all with their own rules, principles and timelines, adding to the general confusion and ultimately preventing the desired results from being achieved. This may lead to a number of (potentially) detrimental outcomes.

First, the lack of strategic thinking on early economic recovery coupled with a shortage of adequate conflict analyses means that activities are all too often just **'development business as usual'**. Although NGOs in particular have experimented with new initiatives and models in recent years, 'old-fashioned' economic planning is still often used, and it may not be effective in fragile states. The choice of 'safe' tools is not surprising. There is usually a lack of statistics and other information normally considered necessary for a proper needs assessment, planning, decision-making and monitoring of aid activities.

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38 These challenges are common to almost *any* intervention in fragile states.

Second, the lack of an overall strategy **limits the sustainability** of short-term, quick-impact projects: focusing solely on short-term projects may hinder the planning of sound follow-up programmes. The lack of a coherent framework may (and often does) result in **disunity among actors**.<sup>39</sup> This is particularly worrying in early post-conflict settings as the establishment of a coherent strategy in such fast-moving and uncertain environments requires the support and cooperation of a diverse range of national and international actors.

Second, fragmented donor engagement may play into the hands of politicians' private interests. A fragile state's institutions are rarely the 'honest broker' the international community would hope for; often one of the drivers of the conflict itself, the state may be a predatory institution that is biased towards one of the competing groups. Politicians and other power-brokers often have their own **patronage networks** to attend to, and a certain measure of disorder may be the most beneficial context for them to do so.<sup>40</sup> This patronage system often extends to the civil service as well. Public servants, be they administrators, clerks or policemen, may be 'service entrepreneurs', and the state's functions available to those able to pay for them. The high turnover of national (political) power-brokers may be the cause of their predominantly short-term view of post-conflict reconstruction: they know their time in office may be short and will attempt to make the most out of it for personal reasons. As Paul Collier puts it: "Restraints are a public resource that is in nobody's particular interest to supply."<sup>41</sup> These risks may be mitigated to some extent by indirect aid delivery through multilateral agencies and NGOs, but the international community will have to be prepared to work with institutional counterparts with quite a different agenda for some time to come.

Finally, the lack of priority-setting hinders the donors' '**need for speed**'.<sup>42</sup> Donors will want to see quick results to show a peace dividend and – not unimportantly – justify their investment to parliament in their respective countries. The results of economic interventions may take years to materialize, however, and this may be longer than a donor government ministry (or minister) is willing to wait. The international community should resist the urge

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39 Report of the Secretary-General on peacebuilding in the immediate aftermath of conflict, A/63/881-S/2009/304, p. 13

40 Chabal, P. and Daloz, J.-P., *Africa Works; disorder as political instrument*, The International African Institute in association with James Currey and Indiana University Press, 1999, pp. 95-109. "Whoever does not rob the state, robs his kith and kin."

41 Collier, P., *The Bottom Billion; why the poorest countries are failing and what can be done about it*, Oxford University Press 2007, pp. 38-52.

42 Ball, N. and Van Beijnum, M., *Review of the Peacebuilding Fund*, UK Department for International Development, June 2009.

to make the need for speed trump the need for a strategic approach to early economic recovery.

#### Box 4: Sequencing fallacy in Burundi

Creating the Strategic Framework for Peace Consolidation between the Burundian government and the donors after the ceasefire with the FNL was a difficult process. Above all, the sequencing in the process was fundamentally wrong. From the start, the donors and the government put heavy emphasis on the quick start-up of projects and disbursement of funds from the UN-managed Peacebuilding Fund (PBF), without agreeing on a broader framework for the peacebuilding process first. There was little discussion of strategic priorities or of how Burundi's political power balance would be influenced by the peace process. Because the PBF was managed by the UN, there was little follow-up discussion of a division of (political) tasks between donors and government. Donors seemed reluctant to become engaged in the political debate in the way they ought to have done. This effectively turned the peacebuilding process into a rather technocratic exercise, the sum of a number of short-term projects. This was later remedied when donors realized they had miscalculated the sequencing, and they started working out strategic priorities in order to make up lost ground.

### 3.2 Juggling capacity-building and capacity substitution

The second and perhaps most important problem, is that fragile states as well as the intervening international actors lack capacity to effectively implement economic recovery activities. At the country level, there are usually many ideas floating around local communities, and plenty of people willing to start working or to establish new businesses. However, there is very often a serious **lack of management or technical capacity** at the institutional level to make the most out of all these fragmented initiatives and create national ownership over the process. For one thing, the absence of a proper framework to support local initiatives will be a problem for donors who need accountable (institutionalised) partners to finance. This makes it all the more regrettable that the capacity-building component may be overlooked when there is too much stress on short-term programming. The hasty disbursement of funds sometimes seems to have become a goal on its own.

Interventions have often relied heavily on international personnel in areas where capacity may be lacking, without paying adequate attention to capacity development.<sup>43</sup> This is understandable, when there is the desire to get things done quickly as possible, but unless local actors are trained to run projects on their own, projects will never become sustainable and are likely to grind to a halt as soon as the international community leaves. The principle should be to buy **capacity where necessary (i.e. if stability is directly at stake), and in all other cases to build it**. Communities will often be keen to get to work if only they had the means and skills to build on their own creativity. There will be plenty of local ‘coalitions of the willing’ to be found whose capacity can be built at short notice and with immediate impact.

As soon as possible, **national ownership** of this process should become prevalent: after all, it is the state which will have to take the development process of its people into its own hands, and this will require early capacity-building. The state must be allowed to prove to its citizens that it can be trusted to take care of their interests, gaining legitimacy in the process. No matter how poorly the state functions and how many dishonest politicians occupy the ranks of government, it will still be necessary to search for **actors for change** within its institutions, who are willing to build bridges to remedy (former) conflict issues. Local actors will have more intimate knowledge of needs, opportunities and local institutions, and will be motivated to change their circumstances for the better. Supporting coalitions between those willing to change the state for the better, and building their capacity, is likely to create some degree of momentum. This will also mean ‘taking on’ the patronage networks inherent in fragile states. Civil servants are often appointed on the basis of their affiliations to people in power, rather than on the basis of their own capacities. **Merit should become the baseline for appointments**, but as politicians are unlikely to willingly relinquish their control over this process, some sort of intermediate solution must be found. This is a sensitive, sovereignty-encroaching issue, but donors and multilateral institutions should exert pressure, at the very least to keep the conversation going on the matter of appointments.

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43 Report of the Secretary-General on peacebuilding in the immediate aftermath of conflict, A/63/881-S/2009/304, p. 15. The recent SG report supports this observation, in stating that “the substitution of international capacity to perform critical peacebuilding tasks, even if only on a short term basis, must be approached cautiously and on the basis of a demonstrable need. [...] Where the international community is requested to provide international technical capacity to support line-functions in national governments, this must be accompanied by capacity development programs.”

*Box 5: Capacity problems in DRC and Burundi***DRC: self-enforcing parallel systems (bad practice)**

Humanitarian aid in the DRC seems to have a self-perpetuating momentum, with some negative consequences. The increase in aid coupled with a lack of Congolese capacity has led to a growth of the structures set up by the international community to manage programmes. These structures run parallel to the Congolese state – perhaps unavoidably. Ironically, this has even further weakened the state’s capacity to manage its own development, and has thereby made it all the more necessary for the international community to retain its sometimes overbearing humanitarian presence, in effect turning the humanitarian undertaking into a vicious circle. Moreover, parallel structures are designed to be temporary, stopgap measures and are not accountable to the local population. Development agencies might have prevented this dynamic by paying more attention to capacity-building in tandem with the implementation of programmes.

**Burundi: learning-by-doing (good practice)**

Donors faced with the dilemma of either outsourcing implementation of programmes through multilateral organizations or international NGOs, or working through an often incapable state, may choose the ‘middle way’ of local capacity-building through learning-by-doing, as was the case in Burundi.

The late start-up of the reintegration programme for ex-combatants, and increasing donor pressure to show results, led to implementation of this programme being outsourced to PADCO (one of the international NGOs implementing the Disarmament, Demobilization and Reintegration [DDR] programme), sidelining local officials. PADCO quickly realized that it needed the cooperation of these officials, as there is a significant disconnect in Burundi between the state and local communities. Local officials knew the area best and could reliably identify high-risk groups. PADCO therefore built up the capacity of local institutions through a learning-by-doing process, gradually increasing the level of local officials’ involvement in the course of the reintegration programme. Initially these officials were involved in budget-planning for activities, and taught basic accounting principles. In due course this was extended to include handling the disbursement of funds, under PADCO’s supervision to preclude mismanagement. Finally, PADCO handed over the entire implementation of the programme to local officials, although it retained its supervisory role. It successfully built local capacity and ownership of the process in this manner and prevented ‘parallel structures’ from being set up. Nevertheless, the learning-by-doing approach may not be appropriate for every post-conflict situation, as putting it into effect requires time, patience and commitment.

Finally, it should be noted that problems concerning capacity do not relate only to national actors. The international community also frequently lacks the capacity to flexibly handle post-conflict reconstruction processes, mainly owing to rigid financial systems (leading to inflexible disbursements of funding), difficult procurement processes and political delays, as well as a shortage of personnel on the ground. The importance of dedicated staff at field level cannot be overstated.

### 3.3 General challenges – recommendations

**Clarify objectives and scope** of early economic recovery as part of broader peacebuilding efforts among all those involved. This is crucial for priority-setting and strategy development. Should a conflict arise between funding for economic development on the one hand and peacebuilding/ stabilization on the other, the latter may be paramount.<sup>44</sup>

**Divide tasks among donors and national authorities.** Technical assistance may ensure that development plans focus on a limited number of high-priority objectives (set by the receiving state) and are integrated into broader peacebuilding and reconstruction programmes. Funding allocations can then be made on the basis of these high-priority objectives. This will require a division of labour based on joint analysis, and a measure of national leadership. **Linking donors to line ministries** in order to restructure and strengthen them, for instance by way of technical committees, may be beneficial. The same could be done with provincial authorities.

**Accept political realities and adjust levels of expectations accordingly.** A complex political environment together with severe lack of implementing capacity requires patience and tolerance for an often slow process. Allowing time for stakeholders to conduct meaningful (political) dialogue on priorities is itself an important feature of the process. Donors should not be afraid to start out small and simple, for instance by setting up local capacity-building projects.

**Consider conflict dynamics when planning.** For example, unequal service delivery between core and periphery may be an important source of grievances and conflict. Reaching out to hitherto neglected regions can be a conflict-mitigating strategy, so make sure sub-projects are divided equally and avoid

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44 Castillo, del, G., *Rebuilding War-Torn States: the challenge of post-conflict economic reconstruction*, Oxford University Press, 2008.

project concentration.<sup>45</sup> The UN and World Bank's PCNA might be a useful instrument for this.

**Start early.** Insecurity is all the more reason to go in as soon as possible. Should instability prevent work in certain areas, focus instead on calmer neighbouring areas, and try to create a spillover effect.

**Make sure humanitarian and development agencies are not working at cross-purposes,** as this may be hugely detrimental immediately after conflict: for example, if humanitarian actors give free handouts in the same area where developmental actors are trying to encourage local people to work hard for their livelihoods, there will be less of an incentive for these people to work. It is important to get UNHCR and UNDP to synchronize their planning as soon as possible.

**Build on what is there,** which may be much more than is apparent. Do not think of the post- conflict environment as a tabula rasa: local initiatives may have flourished during the conflict, and plenty of pre-war structures and practices will have survived. It is important not to harm these remaining systems in any way.<sup>46</sup> Ways of working with 'indigenous drivers of recovery' will depend on their particular socio-economic reserves and assets, their levels of education and the capacity of local institutions. Village committees or provincial governors may be good places to start.

Make sure to thoroughly **assess the agendas of possible partners** and intermediaries: in a conflict environment nobody is 'neutral' and it is important to ensure mutual accountability between the various partners involved in a project.<sup>47</sup> NGOs could help by providing the international community with local partners and links to local governance structures.

**Pay early attention to capacity-building** as part of the programme. Involve local and national stakeholders in project design and implementation, and set up training programmes for state officials, community cooperatives and the private sector (local firms, builders, craftsmen, etc) as soon as possibilities open up. UNDP and (specialised) NGOs might be best placed for this. Capacity-

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45 In Burundi, for instance, inequality between the various regions calls for caution in deciding where to direct attention, as focusing on any particular areas could potentially raise tension levels.

46 For a useful set of standards to ensure that interventions do not undermine economic recovery, see the SEEP network, <http://communities.seepnetwork.org/econrecovery/node/821>

47 Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Sustainable Economic Development in Conflict-Affected Environments; a Guidebook*, 2nd and revised edn, June 2009, p. 39.

building and the transfer of knowledge should be adopted as a standard measure in terms of reference (ToRs).

Donors should be prepared to **extend the funding duration of projects or set up tailor-made funds** for economic recovery. The time frame for most programmes in post-conflict societies tends to be around one or two years (often with the possibility of extension), which is usually inadequate for achieving economic results in these environments.<sup>48</sup> Setting up more flexible funds, to be **made available to less traditional partners** (for example, cooperatives managed by NGOs) might give local organisations more leeway. Financial regulations may prohibit this, of course, in which case it is advisable to at least adjust expectations accordingly.

**Set up (or link up with) follow-up or complementary programmes.** Guidelines in (multilateral) project proposals for early economic recovery activities should (1) demonstrate that thought is being given to how the project links to other activities (ongoing and planned) in the same area; and (2) sketch out a preliminary plan for follow-up fundraising as required.

Finally, **open the discussion on merit-based appointments for bureaucrats** as soon as possible. This may take a long time, but interim solutions could be considered, for example, retaining the capable bureaucratic ‘old guard’, establishing a national oversight committee for appointments, setting firm quality criteria in ToRs, or increasing incentives to entice capable expatriates to return to the civil service.<sup>49</sup> This may require donor pressure, and potentially discussions with the World Bank and IMF about measures to fund extra salaries.

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48 Respondents in Burundi, for instance, have indicated that early economic recovery projects require at least 24 months to be implemented, given the necessary start-up activities and the likelihood of slow implementation.

49 For example, a process could be introduced whereby a few high-ranking positions in the state bureaucracy would be subject to very competitive selection, conducted by a mixed national–international panel, and paid a high salary to prevent corruption.

#### 4. Track 1: Stabilizing livelihoods through emergency employment for high-risk and high-needs groups

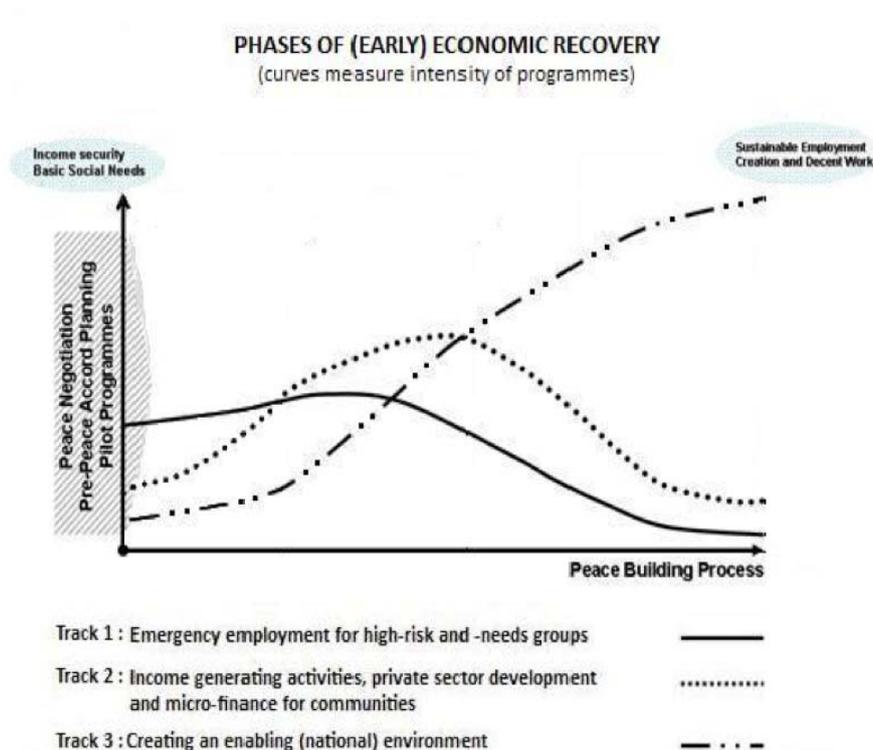


Figure 4: Phases of (early) economic recovery

(Source: UNDP/BCPR, *Post-conflict economic recovery: enabling local ingenuity, 2008*)

This chapter will focus on ‘Track 1’ (emergency employment), which **tends to peak immediately after conflict in countries where local economic institutions are lacking**. Examples are severely ‘incapacitated’ countries like the DRC and Afghanistan. It must be stressed that an initial focus on

emergency employment may not be appropriate in *every* post-conflict situation, as local coping mechanisms and institutions can differ fundamentally.<sup>50</sup>

During the early post-conflict phase in fragile states, the country in question is often insecure and scattered incidents of fighting may still occur. State infrastructure tends to be either non-existent or heavily partisan and the humanitarian effort may still be ongoing. The peace agreement, however, has created a short-term window of opportunity for economic recovery. People are rarely apathetic in the face of a crisis, and will have developed new coping and survival mechanisms. Building on these ‘new’ mechanisms will provide the most useful way forward. This earliest post-conflict phase is characterized – not surprisingly – by high unemployment. With no way to make an ‘honest living’ and sustain a family, the unemployed provide a fertile pool for recruitment by armed groups. Because of this, it is essential to place emphasis at an early stage on the establishment of *livelihood opportunities*: programmes to help people survive and make a basic living. **Addressing livelihoods** helps to meet people’s most immediate needs, and is likely thereby to build confidence and commitment to peace.<sup>51</sup> Generally speaking, livelihood support programmes are designed to complement more standard humanitarian responses, such as food aid, water and sanitation, healthcare, shelter, etc.<sup>52</sup>

In the early phases after conflict, targeted livelihood assistance is perhaps most usefully **aimed at high-risk, high-needs and high-opportunity groups**, such as former combatants, unemployed youths, returning IDPs, refugees and those people who may very quickly benefit from small-scale programmes set up at short notice (for example, farmers needing seeds).<sup>53</sup> Projects may be complementary to humanitarian relief efforts and usually consist of **short-term income-generating activities**. By setting up small ‘pockets of change’ and preventing frustrated spoiler behaviour, early economic programming may help prepare the ground for medium- to longer-term economic recovery (which will

50 For instance, compare the DRC with countries like Lebanon and Colombia: the latter two have quite a vibrant private sector which may be supported from day one and may offer more possibilities than emergency employment could. It might be best to ‘start’ with Track 2 in those cases.

51 Report of the Secretary-General on peacebuilding in the immediate aftermath of conflict, A/63/881-S/2009/304, p. 7.

52 Jaspers, Susanne and Maxwell, Dan, *Food Security and Livelihoods programming in conflict: a review*, Humanitarian Practice Network (HPN) network paper, No. 65, March 2009, p. 10. Evaluations of livelihood support programmes in post-conflict states are still rare.

53 It should be noted that the term ‘high-risk and high-needs groups’ is slightly contrived: it doesn’t mean to suggest that in reality certain groups are more or less ‘deserving’ of aid than others, that there are no groups around with more needs than these particular people, nor that people are easily defined as being part of this group.

be addressed in following chapters of this paper). It is imperative to involve the local private sector as soon as possible. Ideally, the key outcome of this early phase will be that high-risk groups will have been reacquainted with local communities, so that economic programming can from now on concentrate on these groups *together*. This first phase is a stopgap measure: in due course, issues of equity will arise, communities will feel left out and the market may become saturated because of the focus on particular industries in this phase. Moreover, there may be **dependency issues**: people may be less inclined to become independent of aid if they are not given responsibility soon enough for providing for themselves. The goal is to contribute to stability, involve local communities in the process and build on their potential, and **make this phase last no longer than strictly necessary**.

In Track 1, key activities to support livelihoods centre around the creation of jobs: whether through labour-intensive programmes or by enabling self-employment. This chapter will focus specifically on emergency job creation through programmes, and self-employment will be dealt with more extensively in the next chapter.<sup>54</sup>

*Box 6: Needs, conflict and labour market assessments*

It is crucial (and unfortunately this is still overlooked) to start needs, conflict and labour market assessments as early as possible, and to keep repeating them while programmes gain momentum. Needs assessments identify the needs of people in a particular geographical area. Logically, focusing programmes on the most pressing needs is likely to produce the greatest peace dividend. Conflict assessments are crucial tools during early economic recovery, as they can potentially show how the economy is linked to insecurity: what interests are at stake when dealing with sensitive economic issues like land ownership, and how economic recovery might create instability. By mapping actors and interests, conflict assessments can also set a number of stability indicators to be monitored while economic programmes are being implemented. Labour market assessments are rather complicated instruments, but can give an indication of the possibilities the local economy provides for individuals, and can help identify opportunities for growth. A good labour market assessment will help prevent employment programmes from overstressing the absorption capacity of local communities or setting high-risk groups to work in sectors that are less than productive. These assessments should also identify potential ‘unintended consequences’ that donor programming might have on local markets.

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54 For a complete overview of possible livelihood support programmes in post-conflict states, see Jaspers and Maxwell (2009).

A useful tool in this phase is the **Post-Conflict Needs Assessment (PCNA)** developed by the UN and the World Bank. A PCNA maps the key needs of a country after conflict, is led by national authorities and carried out by the World Bank and the UN with support of other donors. One of the particular strong suits of the PCNA is its conflict sensitivity: for each stage of the assessment process (preparation, field research and consolidation of results) it maps conflict dynamics and calculates the likely impact of possible interventions on social tensions. It focuses on short-term impact, but tries to do no harm to future development either. On the basis of a PCNA, a government is often better able to write its **Poverty Reduction Strategy Paper (PRSP)**, on the basis of which the World Bank and the IMF can lend money and set up funds. Another useful tool is USAID's BizCLIR, which pinpoints challenges in a country's commercial and business regulatory environment.<sup>55</sup> Practical Action's Emergency Market Mapping and Analysis (EMMA) toolkit explores the likely outcomes and risks of external interventions in local markets and sketches alternative actions.<sup>56</sup>

Setting up these assessments in the (very) early post-conflict phase is considered, perhaps paradoxically, both very hard and relatively easy. With access to areas and communities barred by insecurity, refugee flows and a constantly changing social landscape, getting a good grip on the exact nature of conflict relations and of the labour market is going to be very difficult. On the other hand, the basic needs of people seem to be relatively predictable, like physical security, food, healthcare or a basic subsistence income.<sup>57</sup> No matter how difficult the situation may seem, it is crucial to start assessments as early as possible, if only to ensure that practitioners receive insight into the difficulties of their surroundings. When stability increases in due course, other areas become available for economic programmes and people begin to settle down again, new assessments will be needed. It is best to make an early start.

#### 4.1 Emergency employment

One of the most influential economic strategies in areas where local economic opportunities are missing is that of job creation for high-risk, high-needs and high-opportunity groups such as ex-combatants, unemployed youths, IDPs and

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55 See <http://www.bizclir.com/>

56 See [http://www.microlinks.org/ev.php?ID=38407\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev.php?ID=38407_201&ID2=DO_TOPIC)

57 Assumptions should not be made too readily, however; one can never be sure about people's *actual* needs, and quite a few post-conflict interventions have operated on the basis of expectations, rather than realistic assessments.

returnees.<sup>58</sup> Unemployment creates fertile ground for violent conflict and vice versa,<sup>59</sup> potentially dragging countries into a negative spiral of conflict and under-employment. There is still quite some misunderstanding surrounding the topic of job creation. The ILO stresses that employment is often seen as a consequence of reconstruction rather than as its major accompanying feature.<sup>60</sup> In fact, although it is important not to over-simplify a difficult process, a **few options are readily available for taking possible spoilers of the peace process off the streets at short notice.**<sup>61</sup>

The early post-conflict stages offer opportunities for creating jobs fairly quickly through public works and labour-intensive reconstruction: putting people to work on building roads, bridges, houses, etc. Generally speaking, early employment activities have to be **fully subsidized** by the donor community and can have a considerable effect on the labour market. This immediate phase after conflict is where the international community can still come in with large investments and a roll-out of international expertise. There are usually plenty of local people around willing to work and improve their lot, but there may be few ‘organisers’, local entrepreneurs or NGOs active at this stage. This means that there is less risk of pushing out local capacity, causing a ‘brain drain’ of talented people or setting up untenable parallel systems. Nevertheless, these measures can be **temporary at best**: favouring special groups may, in due course, result in them becoming complacent and less willing to go out and fend for themselves. Employment creation is also financially unmanageable if it continues for too long.

Programmes for **small-scale infrastructure or agriculture** (also referred to as **quick-impact projects** or micro-projects) such as building roads, schools and agricultural projects, are often favoured for their potential to create immediate employment opportunities at a local level. Infrastructure is the productive backbone of any economy. **Strategically choosing the location** of new roads could also link isolated villages to market places, supporting market and private sector development.<sup>62</sup> Making transport easier (and therefore cheaper) will lower the cost of food production and market prices, and improve food security. The reconstruction of roads also gives the police and military

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58 As a respondent in Bosnia-Herzegovina put it: “The most important issue in terms of economic reconstruction in the first phase after the peace agreement? Jobs, jobs, jobs.” Van Beijnum, Specker and Anthony (2007), p. 13.

59 United Nations: Employment Creation, Income Generation and Reintegration in post-conflict settings, UN system-wide policy paper, May 2008.

60 Employment-intensive public works (EIPW), as referred to in ILO documents.

61 United Nations, Employment Creation, Income Generation and Reintegration in post-conflict settings, UN system-wide policy paper, May 2008, p. 65.

62 United Nations: Employment Creation, Income Generation and Reintegration in post-conflict settings, UN system-wide policy paper, May 2008.

actors a larger area to operate in, improving safety and reducing opportunities for spoilers to be active. Labour-intensive projects have the added advantage that they can take place in relatively supervised (and thereby controlled and more secure) environments.<sup>63</sup> Rebuilding houses for returning refugees and IDPs may take the pressure off overcrowded camps.<sup>64</sup> Labour-based programmes can also be a catalyst for skills development if combined with training and enterprise development.<sup>65</sup> Depending on their scope, labour-intensive infrastructure projects can reduce hostility and build understanding between different groups, between returnees and the host community and groups supporting opposing sides in the conflict.

As with every programme intervention in fragile states, a number of risks are involved in setting up short-term employment schemes for infrastructural and agricultural work. For one thing, the opportunities for **corruption** are great, as large private companies must be attracted to implement public works projects, and this means the stakes are high when it comes to possible contracts. Assessing partners is going to be crucial. Moreover, if **short-term goals are over-emphasized**, programmes may be poorly embedded into programmes with a longer time frame. The first challenge in these surroundings is therefore one for the international community itself: the realization that this is just the first part of a long-term process that will require quite different, and much more multi-track work at a later stage. Short-term work should ‘do no harm’ to later development initiatives. For instance, it is important to plan for the *maintenance* of roads and other physical infrastructure projects, because local government will have to take over this task once construction programmes have finished.

In addition, public works alone will not kick-start a heavily damaged economy. It just provides local people with temporary work and more opportunities to develop themselves. New roads may ensure better access to urban markets for farmers, but it might remain difficult for them **to find** buyers. These may be far away, and travel may have become unsafe because of the recent conflict. Sensitive land issues might come to the fore during large-scale public works projects, as shortages of land or unequal distribution may have been at the root of local conflicts. An inflow of high-risk groups working in agriculture should be accompanied by a **dialogue with local communities**.

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63 If social tensions are high, labour-intensive projects have the added advantage of being physically demanding. This is not to be underestimated: tiring young people out will substantially decrease their capacity to cause unrest during their free time.

64 For a more detailed discussion, see L. Specker and I. Briscoe, *Early Economic Recovery in Fragile States: case study Burundi, challenges to project implementation*, forthcoming 2009.

65 Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Sustainable Economic Development in Conflict-Affected Environments; a Guidebook*, 2nd and revised edn, June 2009.

Another challenge concerns **saturation of the market**: as supplies of a particular product increase because of the expansion of single-product public works (like specific agricultural products), prices will drop and high-risk groups will receive fewer benefits. There is a need to diversify the market as soon as the opportunity arises; keeping high-risk groups working in one particular industry is a stopgap solution only. Moreover, public works programmes have **not always been effective at teaching skills on which sustainable livelihoods can be built**.<sup>66</sup> Teaching is a wholly different discipline from building a road. Training programmes tend to generate considerable interest among assertive local people, but are also costly, and difficult to sustain beyond the duration of the project, as well as generally requiring a substantial up-front investment of time and financial resources for their preparation. Donors may be reluctant to fund them, given the financial risks involved. Finally, it is important to carefully assess what particular groups gain from public works projects, as they may be beneficiaries of political favouritism.

*Priority and Sequencing of Assistance*

<i>Activity</i>	<i>Urgent</i>	<i>Immediate</i>	<i>Intermediate</i>	<i>Consolidating</i>
<i>Cash-for-work - trash cleanup and building repair</i>				
<i>Cash-for-work - small-scale community infrastructure rehab, road and culvert crews</i>				
<i>Revival of subsistence farming (vouchers for tools, seeds; staple food until harvest)</i>				
<i>Induce return to rural areas and traditional employment (tools, materials, cash; closure of camps for displaced)</i>				
<i>Cash and meals for literacy, vocational training, or workshop apprenticeships</i>				

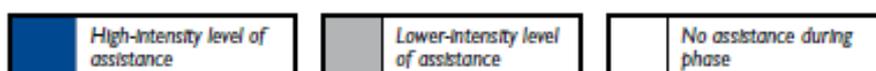


Figure 5: USAID: Example of the phasing of emergency employment (Source: USAID, A guide to economic growth in post-conflict societies, January 2009, p. 34)

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66 Multi-Country Demobilization and Reintegration Program (MDRP), <http://www.mdrp.org>.

*Box7: Emergency employment projects: Somalia and Liberia***Somalia**

UNDP and ILO Somalia have jointly set up emergency employment projects in the most unstable areas of the country. Somalian communities tend to be sceptical about and in some cases outright dismissive of aid and agencies. Creating jobs for them provides an entry point for engagement by (inter)national actors. This concept of ‘employment for peace’ has been prioritized on the development agenda of local authorities, donors and other agencies.

Since August 2008, more than 200,000 working days of employment have been created all over the country, from the North-West to Central Somalia. In Mogadishu, a community-based employment project was implemented in six of its sixteen districts, including a waste collection project. The project set local communities to work in removing garbage that blocked roads and drainage pipes, thereby addressing an important health risk.<sup>67</sup> The project was the largest single (formal) employer in Mogadishu, boosted equipment hire and provided the first step towards establishing a community-based Local Economic Development Forum in the capital.

**Liberia**

In June 2006, the Government of Liberia launched the Liberia Emergency Employment Programme (LEEP). In cooperation with the UN Mission in Liberia (UNMIL), UNDP, ILO, the WFP and the World Bank, LEEP has so far created more than 21,000 short-term jobs for skilled and unskilled labourers, representing more than 500,000 working days. Preliminary findings from an impact assessment<sup>68</sup> seem to indicate that most labourers used their wages to rebuild their homes and start new livelihoods and income-generating activities.<sup>69</sup>

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67 The waste management project is funded by the European Commission and the Ministry of Foreign Affairs of Norway.

68 The impact assessment was carried out by the Liberia Institute for Public Administration.

69 UNMIL focus, Vol. 4, no. 2, 2007

## 4.2 Emergency employment - recommendations

Carry out **assessments** of the conflict context, labour market opportunities and local needs. The first question should be whether it is useful to engage in emergency job creation or, if other options are available, should the initial focus be on 'Track 1'? If so, assessments will have a positive influence on programming, but also create a sense of realization among the donor community of the difficulties involved, and the long time that economic recovery may take.

On the basis of these assessments, consider **longer-term flexible funding**, for instance from a multi-donor trust fund. Large-scale, up-front investment may well be required.

The effectiveness of public works depends to a large extent on the **preparedness at field level**, which should not just be assumed. Established modalities for procuring materials may have broken down, and labour market information may be difficult to obtain. **Organizing sector working groups under local stakeholders** to address the concerns of potential donors, building political constituencies, developing tender documents and significant legal and sector policy reforms can all begin early on, and may serve to make good these deficiencies. (International) NGOs may be well placed to carry out this work, and may require additional funding from tailor-made financial funds (such as MDTFs).

Although there is no catch-all solution for this problem, practice suggests that the approach to job creation **has to be fairly simple**, in terms of both the works undertaken and the means employed. It should also be carefully **balanced**: attractive enough for people to choose a particular job over a return to arms, but unattractive enough to ensure that people will soon start looking for alternative work and do not apathetically 'stick around' the project.

**Look for local (private sector) implementers** from the outset: there are usually plenty of people around with good ideas, willing to work and make a difference, and they should be given the lead as soon as possible.

**Cash-for-work programmes** can help re-establish or increase agricultural production, rebuild damaged or missing rural infrastructure and promote or strengthen market linkages. Providing cash aid can help re-monetize and boost the economy and rebuild livelihoods. Cash spending spreads economic benefits widely, rather than central purchases being made from a few, large-scale traders. These sorts of programmes should be closely monitored to check on any possible inflationary impact on prices and wages that the influx of international funds into small markets might have.

Other options are **food-for-work programmes** or related **food voucher schemes**, particularly in areas with a high level of food insecurity and/or where

markets are disrupted.<sup>70</sup> A way of dealing with the possibly negative effects on the labour market is to ensure that work is remunerated for 50% by cash, and for 50% by food. The overall value should be **in line with the minimum local wages** for equivalent work.

In order to increase the sustainability of cash- and food-for-work projects, **short or ad hoc (on-the-job) training** can be undertaken to provide urgently needed, but relatively simple skills. The training mechanisms most suited to this phase would be non-formal skills development (unstructured, on-the-job training), possibly by means of mobile training centres (see section 6.2). Specialized NGOs tend to be best placed to provide these trainings.

During the later stages it may become important to advise local government and community leaders on setting up labour-intensive **maintenance systems** for the rehabilitation of infrastructure.<sup>71</sup> UN agencies and local NGOs are probably best placed to participate in these discussions and organize complementary training (see next chapter).

There may be scope for initiating **livelihood programmes based on (micro-)credit** in areas that are sufficiently stabilized to facilitate ‘early entrepreneurship’ (on micro-credits, see next chapter).

*Box 8: The need to follow up short-term activities: PARESI Burundi*

PARESI, the Burundian government’s implementing agency in charge of the repatriation and reintegration of ‘war-affected persons’ builds ‘integrated villages’ for returning refugees and IDPs (from the 1972 war) who have no land or communities to return to. This project is (mainly) funded by UNHCR and tries to create livelihoods that are more sustainable than the temporary ones that these people would have in refugee camps. Based on the cash-for-work principle, construction of the villages provides returnees with temporary jobs. Food packages are also provided.

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70 The WFP will probably be present during these stages, in the event of continued food shortages or lack of food production (although the target areas for WFP are likely to be much wider).

71 International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003, p. 255.

Unfortunately, the programme lacks sustainability. For one thing, no follow-up activities to the infrastructural work have been planned, leaving people with houses but no income or way of supporting themselves. Second, UNHCR has failed to get the Burundian government or other donors to take charge of the programme and contribute financially. This means the programme – intended as a transitional phase between taking high-needs groups off the streets and more durable development – may end because of funding shortages after UNHCR leaves the country .

### 4.3 From ‘Peak 1’ to ‘Peak 2’

Economic support to high-needs and high-risk groups is basically a stopgap measure, or a holding pattern. It must, in due course, be balanced by a more equitable approach and a diversification of the economy so the market does not become saturated (negatively impacting on everybody else). It will always be difficult to predict when the situation will be ripe to move from a short-term approach focused on high-needs and high-risk groups to a more broad, community-aimed approach, as this will be highly context-specific and may differ widely from region to region in a single country. Nevertheless, it is possible to identify a number of rough benchmarks showing when to move the emphasis from this track to the next:

*Human security increases.* There are fewer (reported) occurrences of armed violence or clashes between opposing militant groups and communities feel safer than before. People start returning home from (refugee, IDP or ex-combatant) camps and large labour-intensive projects.

*Travel along roads becomes more secure.* People adjust their coping mechanisms, for instance, from short-term trading to more durable production of goods. There is a noticeable increase in the amount of trade between villages. Nonetheless, there is little variety of goods and there is a risk of market saturation, observable in falling prices for particular goods.

*Communities seem to be accepting high-risk groups into their midst,* but there is the feeling that the benefits of economic recovery are not shared widely enough.

*The international community and NGOs start crowding local entrepreneurs* and other businesses out of the market and need to take a step back to make room for local initiatives.



## 5. Track 2: Income-generating activities, private sector development and micro-finance for communities

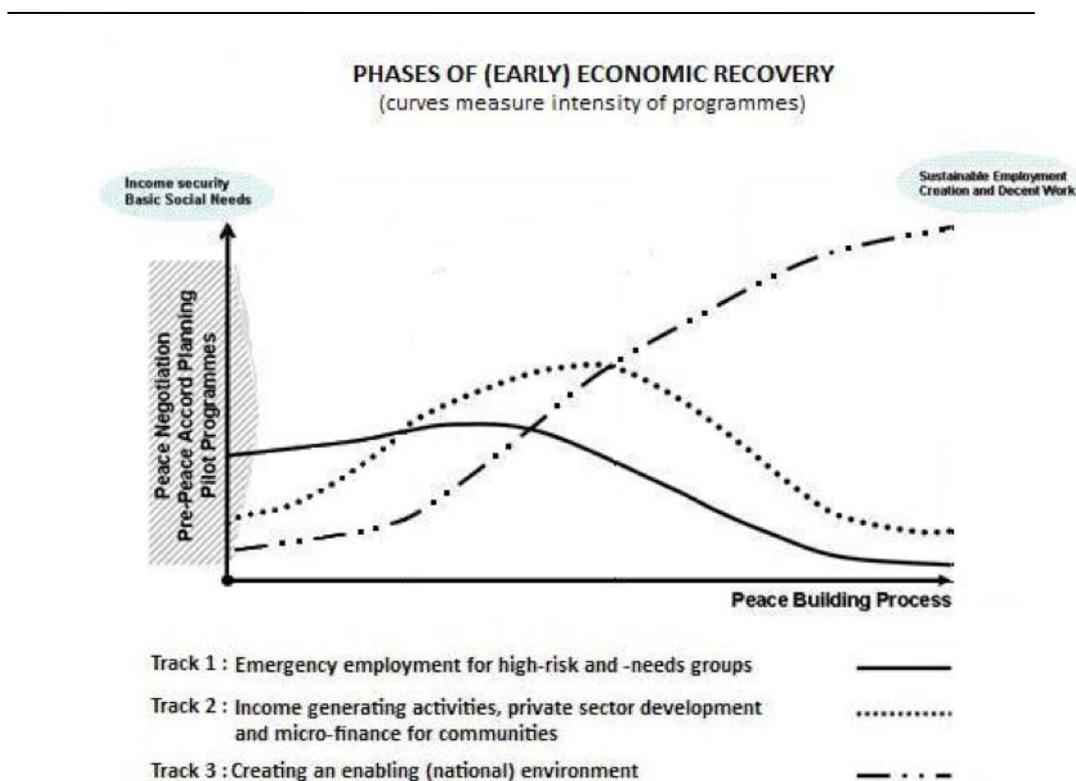


Figure 6: Phases of (early) economic recovery

(Source: UNDP/BCPR, Post-conflict economic recovery: enabling local ingenuity, 2008)

This chapter will address the second track of economic interventions after conflict. As mentioned in the previous chapter, the **right time to engage with Track 2 may differ fundamentally from one country to another**. In some post-conflict societies (those where economic institutions are relatively developed), Track 2 may be engaged with **immediately after the signing of a peace accord** (or even earlier). In the more fragile or institutionally 'incapacitated' states, such as those referred to in the previous chapter, Track 2

may open up after emergency employment and other activities have begun to reduce instability. In all these countries insecurity and uncertainty will still be felt, however. Once the high-needs, high-opportunity and high-risk groups have been attended to as well as possible, more opportunities start opening up for working with communities and spreading the positive effects of economic reconstruction more widely, thereby increasing the scope of the supposed peace dividend. Issues of equity will certainly arise: stability should be felt by everybody, not just the groups most likely to return to violence.

During Track 2, the idea is that **communities become relatively self-reliant and build their own coping mechanisms** for the difficult circumstances they find themselves in. There will be plenty of opportunities to expand the scope of economic programmes: communities have usually weathered the conflict by developing coping and survival mechanisms and will be eager to rebuild their livelihoods and regain some sense of normality. They will probably have many ideas about how to do this, so finding **'private sector coalitions of the willing'** should be the first item on the agenda. This is not yet the moment to suggest too revolutionary changes in livelihood programming, however: people coming out of conflict will probably want to rely on what they know has worked for them in the past (such as agriculture or a particular craft), so setting up training for these sorts of skills will be easier. It will be necessary, of course, to seek opportunities for scale enlargement within these familiar niches.

Growing stability in this interim phase will enable more actors to be involved in setting up activities. This will make the implementation of economic activities more of a balancing act. **Because of the larger number of actors, emerging markets may be impacted upon heavily** and local entrepreneurs could be squeezed out of the market by the influx of international funds and expertise. Moreover, the **process will become more** political: the state will become more involved because space is opening up, but is likely to still lack capacity or be biased towards certain groups. With the financial stakes rising, more actors will want a piece of the pie. Corruption is an ever-present problem as well. It is essential to plan ahead and keep doing needs and labour-market assessments as the situation changes. The following priority areas will be discussed in further detail below:

Income-generating activities and livelihood support: infrastructure and agriculture;

Private sector development;

Micro-finance.

*Box 9: Value chain promotion*

Many durable economic recovery activities are related, in one way or another, to value chain promotion (or optimization). This refers to the process by which the various sub-sectors of a particular product's value chain are assessed and improved in relation to each other. For instance, for an agricultural product, the 'chain' runs like an unbroken line from inputs such as seeds, tools and manual labour through transportation, local markets, traders and storage to exporters, importers and retailers and on to the consumer, at the end-product stage. In a post-conflict setting this chain will be influenced at various points (see Figure 7). For example, illegal checkpoints forcing farmers to pay 'taxes' will force them to raise their prices, thus shrinking the direct market for their goods, as local brokers, too, are usually just small-scale operators. The way small producers are included in the division of labour, and how incomes out of the value chain will be distributed also depends on power relations among buyers, processors and producers. It is important to be aware also that value chain promotion may fundamentally alter the prevailing status quo, and is therefore **not an apolitical process**: large landowners or other monopolists may not be pleased at smaller entrepreneurs getting a chance to chip away at their dominant market position.

A value chain provides multiple intervention points for making a positive difference. Through the mapping of a chain for a product in a particular geographical area, the stumbling blocks for effective trade are sketched more clearly, and a strategy can be developed to remove these obstacles or fill the gaps in the chain, thereby **optimizing the interaction between the various 'nodes'**. For instance, farmers' cooperatives could bulk produce in remote areas to raise producers' bargaining power in an unfamiliar competitive environment, and thereby share economic benefits more equally. During this process, it is crucial to get the stakeholders of the chain together (for example, in working groups or cooperatives) to jointly define problems and workable solutions. Bringing different entrepreneurs together around a **shared process** such as this, as well as being able to draw on their superior knowledge of local circumstances, may kick-start all sorts of new business ventures. These cooperatives may be supported by setting up tailor-made financial instruments. Value chain development will require (external) monitoring, however. Value chains **may become more exclusive over time** as small-scale producers fail to meet the rising number of requirements and higher standards stipulated by those who 'control' the chains (such as multinational traders and food processors), leaving only those larger or innovative actors who can upgrade their businesses accordingly. This form of monopolization may not necessarily be in everyone's favour.

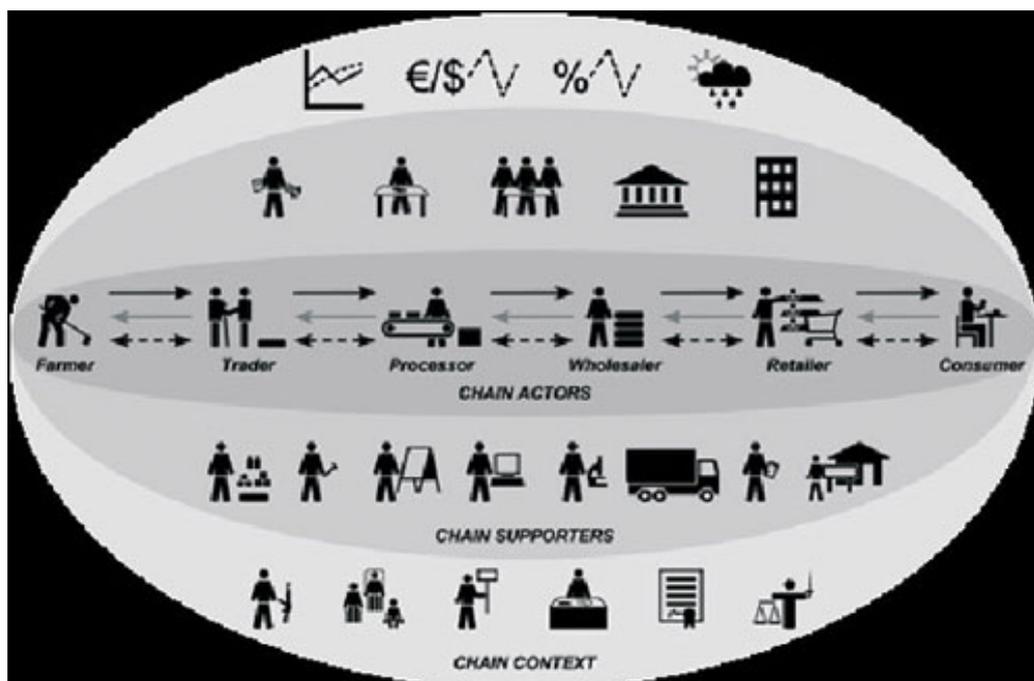


Figure 7: Value chain and context

(Source: “Empowering Rural Entrepreneurs”, special report in *The Broker*, October 2009, p. 16)

## 5.1 Income-generating activities and livelihood support

### *a) Infrastructure*

As discussed in Chapter 4, one of the best ways to create jobs, show a peace dividend and create the conditions for future development is to work on labour-intensive infrastructure. This section will discuss the same sorts of activities introduced for high-risk and high-needs groups in the earlier phases of conflict (see Chapter 4), but in this case they are intended for the wider target group of local communities. The goal will no longer be just to keep the troublemakers off the streets, and there will be more time for setting up and implementing programmes, as the problems of instability have been considerably reduced. Also, as communities become actively involved in their own development, discussions will become more multi-faceted than in the first phase.

Instead of quick and simple projects like road-rebuilding, others that could be considered include the construction or repair of drainage and irrigation systems for agriculture, the construction of feeder roads, bridges, schools, health clinics, or other interventions that support sustainable agriculture, access to clean drinking water and irrigation schemes. Many of these programmes are impact **multipliers**. For instance, building water turbines to create electricity will have the multiplier effect of lighting schools so that children can learn after their day’s work in the fields, as well as providing power to medical clinics.

**Maintenance and repair** of recently built structures becomes more important. This opens up further possibilities for the training and capacity-building of local communities, and may even provide year-round (though season-specific) jobs; given the climate in many fragile states, roads will always have to be patched up again after the rainy season. The impact of infrastructure on local market development has also been mentioned. Primary sector activities such as agriculture, livestock-rearing, forestry and fishing can be started up more easily and possibly expanded if the roads improve. The movement of people in search of work would be facilitated by the construction of feeder roads to main highways and transportation axes as well. Public works projects targeting both ex-combatants and members of the wider community also encourage social integration and networking.<sup>72</sup> Labour-intensive infrastructural programmes provide opportunities to build solidarity and understanding between different groups at the local level.

*Box 10: Infrastructure aiding stabilization in Afghanistan*

Infantry officer and anthropologist David Kilcullen notes in *The Accidental Guerrilla* how the process of building a road in rural Kunar (Afghanistan) was used for conflict prevention.<sup>73</sup> A road will have to pass through the territory of different local leaders. This is bound to create some tensions between the various communities, over jobs, wages and the location of roads. However, the tension created can work to the international community's advantage, as it provides an opportunity for the state to position itself as an honest broker between the two groups and connect the tribes with local and provincial governance. Serving as mediator may enhance the state's legitimacy as well as preventing a return to conflict. The process of building the road can therefore be more important than the actual economic and security benefits the road itself brings: a political manoeuvre with the road as a means to a political end.

When considering infrastructural projects, it is important to distinguish between small- and large-scale programmes because of their different potential effects on the labour market.<sup>74</sup> The previously mentioned **small-scale infrastructure** programmes (quick-impact projects) may create immediate employment, as communities themselves could be contracted to do infrastructural work.

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72 Multi-Country Demobilization and Reintegration Program (MDRP), <http://www.mdrp.org>.

73 Kilcullen, D., *The Accidental Guerrilla; fighting small wars in the midst of a big one*, Oxford University Press, 2009, pp. 39-114.

74 Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Sustainable Economic Development in Conflict-Affected Environments; a Guidebook*, 2nd and revised edn, June 2009, p. 11.

This approach may be appropriate when the private sector lacks the practical experience, technical skills, or capital to respond to the challenges of reconstruction. **Large-scale economic infrastructure** logically puts more people to work and its possible impact on development is greater. It should be noted that the larger and more complex infrastructural programmes become, the more work will need to be done by machines or other relatively complex means. This will necessarily mean that fewer people will be hired to do manual work. Therefore, there is a limit to the amount of employment that infrastructure projects can create. An appropriate mix should be sought between labour-intensive and equipment-based works, with as much work as feasible being done by manual labour.<sup>75</sup>

Selecting, administering and implementing large-scale infrastructural projects can be **intensely political undertakings**, with significant distributional consequences. Many large-scale programmes in key economic areas such as energy, transport and communications have eventually been caught up in controversy and delays. The **inflow of manpower, and the multiplication of development actors** active once the conflict quiets down somewhat can mean there are more options available, but at the same time more problems of coordination. Donor coordination tends to become more difficult when programmes become larger, trust funds take time to set up, and corruption may be an issue: the larger the programme, the more rewarding it is for national actors to have a stake in the proceedings. At this stage, donors will want a quid pro quo for their investment from the receiving government, i.e. they will expect institutions to have been reformed into more accountable, inclusive entities. The receiving government's hesitation to actively meet donors halfway on this issue has frequently led to delays in project implementation and loss of productivity in the field.

#### *b) Agriculture*

Agriculture is usually the most important source of **livelihoods** for rural populations and has an immediate potential for growth.<sup>76</sup> However, this sector does not always attract direct engagement. The current focus of development programming in fragile states tends to be on the delivery of services such as health, water, sanitation and education, rather than agriculture. As in the case of infrastructure, support to the agricultural sector during the immediate post-conflict phase can create labour-intensive employment and **food security** in difficult times. Moreover, developing rural areas may **prevent a large-scale**

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75 International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003, p. 251.

76 Longley, C. et al., *Rural Recovery in Fragile States: Agricultural support in countries emerging from conflict*, Overseas Development Institute, February 2007, p. 2.

**exodus** to the cities.<sup>77</sup> This will prevent the breaking up of social groups and the development of inner-city slums (which are often a hotbed of crime and political mobilization). If rural communities are kept intact this will also be an incentive for ex-combatants, IDPs and other high-risk groups to return to their families and reintegrate into society.

However, agriculture is more challenging and less of a stand-alone activity than infrastructure is. Infrastructure is a relatively straightforward means to an end: for instance, people can use a road in any way they see fit. By contrast, farmers are part of a much longer value chain. The production and marketing of one type of produce (e.g. maize) will be **dependent on access to specific inputs**, such as access to land (to start with), seeds, water for irrigation, market information services,<sup>78</sup> and the keeping of pack animals for transport.<sup>79</sup> Food security cannot be addressed by simply producing more food, either; lacking income or entitlements, low-income families will still not be able to improve their situation.<sup>80</sup> The effectiveness of the agricultural system is dependent on many external variables such as droughts, erosion and soil degradation, and factors that are highly conflict prone, ones like access to land or water.

Land reform tends to be one of the main drivers of conflict, and access to water may cause tensions between nomadic herdsman and agricultural settlers, as was the case for instance in Sudan. Agriculture is not just a branch of industry to many people; it is a way of life and provides **social cohesion** and security. People may go to great lengths to prevent being separated from their (ancestral) lands, selling off their cattle or agreeing to schemes that may benefit their neighbours' land more than it does theirs.<sup>81</sup> Commercializing agriculture must be undertaken cautiously (if at all), so as not to disrupt this dynamic too

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77 International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003, p. 37.

78 For instance, access to mobile phones so that farmers can obtain information about prices in the region.

79 Longley, C. et al., *Rural Recovery in Fragile States: Agricultural support in countries emerging from conflict*, Overseas Development Institute, February 2007, p. 2.

80 In fact, achieving food security seems to require education more than anything else. The Overseas Development Institute (ODI) of the UK calculated that especially women's education (because of its influence on child nutrition) accounts for some 40% of the reduction in malnutrition over the last 25 years.

81 A good example of digging a well in Afghanistan was recently mentioned in *The Economist*. "In villages where irrigation is communal a new well can shift power to the owner of the land where it is sunk. Or it can strengthen the group paid to dig it. 'You can create divisiveness or give the impression that you ... do not understand what is going on or that you have sided with one side or another,' says General McChrystal. 'Yet all you tried to do is provide water.'" 'Obama's faltering war', *The Economist*, 17 October 2009, p. 30.

abruptly, as this could lead to an exodus of people to the cities, with an added risk of instability. So far, efforts to commercialize agriculture in fragile states have usually been fragmented, poorly coordinated and more than anything very *localised*. What tends to be implemented through programmes are piecemeal projects focusing on *inputs* like seeds and irrigation on a communal level, and not so much on structural agrarian reform. These are certainly a useful way of creating short-term jobs, but insufficient attention gets paid to institutional reforms at the meso- and macro-levels, which is what should be the ultimate aim.<sup>82</sup>

Ideally, agricultural support in fragile states should not concentrate solely on increasing output, but should **also aim to enhance consumption, and improve markets**. In essence, agricultural support in post-conflict environments should consist in facilitating the transition from supply-led programming to the **establishment of sustainable (market-driven) agricultural systems**.<sup>83</sup> In due course, experimenting with new technologies for genetically modified crops may help, but fragile states often lack the necessary safety regulations and legal frameworks to do so. Developing the agricultural sector is a long-term process, requiring changes in the institutional support and protection of farmers, and will most probably have to address difficult issues like land reform (see next chapter). Farmers will obviously want robust confirmation of their land rights before they will be willing to experiment with, or heavily invest in, their land. Finally, it should be noted that the ‘political warning’ is as valid for large-scale agricultural projects as it is for infrastructural projects: the larger they become, the more impact they have on distributional systems, and the more **politicized** they become.

*Box 11: Agricultural activities for stabilization purposes in the DRC*

The UN takes an integrated approach to peacebuilding in the DRC, by way of its Security and Stabilization Support Strategy (UNSSSS), in which agricultural activities are explicitly seen as a way to create a peace dividend and integrate vulnerable groups back into society. Using agrarian activities for stability purposes is a relatively novel idea in development thinking. It is supported by a number of donors: the Netherlands, for example, finances the project from its Stability Fund, normally reserved for security programmes.

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82 Longley, C. et al., *Rural Recovery in Fragile States: Agricultural Support in countries emerging from conflict*, ODI, February 2007.

83 *Ibid.*

Like all UN agencies in the area, UNDP, UNICEF and FAO closely coordinate their programmes in Ituri and North and South Kivu so as to attain the maximum effect on rural reconstruction. With a combined programme known as 'PEAR+', they focus on stimulating (or in some areas completely relaunching) agricultural production to specifically benefit returning refugees and IDPs. The programme establishes community cooperatives and farmers' associations, building their capacity, and expanding existing veterinary services. Seeds, tools, storage facilities and in some cases transport is provided as well. Moreover, feeder roads and bridges are patched up so markets can more easily be supplied with agricultural goods, thereby providing food security and employment opportunities for farmers and their families. The soaring food prices caused by the conflict make for a receptive market. Finally, micro-credits were provided to successful farmers so that they could hire more people and purchase more seeds and tools to expand their business. Follow-up and monitoring of the agricultural projects will be done by local NGOs. PEAR+ could therefore be considered a good example of an integrated approach to durable agricultural development for the purpose of stability.

## 5.2 Infrastructure and agriculture - recommendations

In line with earlier phases, continue to carry out **assessments**. Economic conditions may change quickly, and in an ever more complex environment with multiple intervening actors it is crucial to agree on the challenges and opportunities in the field. Conflict assessments (such as the PCNA) should **map resource-based conflict patterns** related to land occupation and access to water, which may become extra pressing if groups of people are returning from war or refugee camps. Again, **coordination** and dividing out tasks is essential, in this interim phase even more than the previous one.

It is important for the international community to be well aware of its own impact on developing markets and job creation: the **influx of foreign funds** and jobs may create skewed markets, price inflation and a 'brain drain'. The international community should avoid setting up a 'parallel system' and avoid being in competition with local entrepreneurs. Buying local goods and paying local taxes wherever possible helps as well. (International) NGOs may be best placed to keep an eye on prices, working with local partners.

Be aware of the political impact these projects may have, and make sure that the implementation of projects is closely monitored and embedded within a political dialogue with local and national politicians. Donors could put pressure on the government through a coordinating mechanism like the UN.

The need to **keep things as simple as possible**, and **prepare well in the field** for infrastructural and agricultural work, has been mentioned in the previous chapter. The starting point for such projects should be local planning.

Ideally, the international community and international NGOs would work from the outset **through communities** and build their capacity: leave them in charge of setting priorities and managing projects, while keeping an eye on the administration of funds to prevent corruption or mismanagement. Key areas of training for talented individuals are accounting and project management. Allowing specialized NGOs access to MDTFs for this could be an option.

Local ownership is especially important in sensitive areas like agriculture or livestock. **Involve local farmers in planning**, and let them make decisions based on both their own knowledge and ‘new’ research-based options (e.g. new types of seeds and crop varieties), but do not force anything. Build awareness of the harmful effects of soil degradation, though. Training community members in **basic animal health**, linking them to veterinarians and providing animal medicines may also help.

Supporting **local initiatives in value chain promotion** is important. Getting local business people, farmers and others together to discuss cooperation on specific products, and setting up **tailor-made financial instruments** or earmarking funding to help these cooperative initiatives (perhaps through international NGOs) may be quite beneficial.

Profits and wages earned from infrastructural and agricultural programmes could be **re-invested in commercial activities** benefiting the wider community. For instance, during some projects participants were paid only 50% of their wages during implementation. The other 50% was to be paid at the end of the project, providing workers with some funds to invest (for example, to repair damaged houses or serve as start-up funding for a small business). Training may also be added to the package of options, or it could be made compulsory for participants to undertake training in order to receive the rest of their salaries.

**Building the capacity of training centres** ensures durability as well. In most cases there is a prevailing lack of trainers and formal training institutes, because of the recent war. Training trainers (where there is a demand for it) is a way of making sure that capacity will endure beyond the departure of the international community.

Do not overlook the high-risk groups during this period, as they still have the potential to become ‘spoilers’. **Find or create job placements for ex-combatants** and develop incentives to encourage employers to hire them or provide apprenticeships for them, as an alternative to public works

programmes.<sup>84</sup> Consider expanding ongoing public works programmes to cover ex-combatants, rather than starting new ones.

*Box 12: Setting up training programmes*

Over the last few years, some general lessons have been learned during the setting-up of training programmes. Most importantly, **basic training needs should be defined by the local communities**, who are usually best able to judge what is required in their locality at that particular time. The training programme should be based on local resources as far as possible: get local people involved, use communal facilities, etc. At the same time, practitioners should make sure that communities are aware of the potential needs of a developing labour market as well: training people in agriculture may be useful today, but if the developing market starts providing opportunities in other sectors, communities should at least know about them. Trainers could be linked to local authorities through **facilitators**, who could help both parties define needs and possibilities, as this has on occasion been a difficult process. The German development agency GTZ<sup>85</sup> defines five basic types of training, which may be beneficial in post-conflict settings.

In directly post-conflict settings (Chapter 4), non-formal skills development and training by mobile teams may be helpful. Non-formal skills development refers to short, ad hoc, unstructured on-the-job training (e.g. in infrastructural work) for everyone participating. The training will usually just relate to the job in hand and can be set up quickly in the very early phases after conflict in labour-based programmes. Mobile training refers to mobile units of trainers who travel to difficult-to-reach areas to train (usually) high-needs or high-risk groups, such as refugees or former combatants (in camps).

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84 Multi-Country Demobilization and Reintegration Program (MDRP), <http://www.mdrp.org>. United Nations Development Programme (UNDP), *Post Conflict Economic Recovery; enabling local ingenuity*, BCPR report, 2008. *Taking Stock, Looking Forward: A Strategic Review of the Peacebuilding Commission*, NYU Centre on International Cooperation (CIC) and the International Peace Institute (IPI), April 2008, p. 16.

85 Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Sustainable Economic Development in Conflict-Affected Environments; a Guidebook*, 2nd and revised edn., June 2009, pp. 66-67.

When the situation has stabilized somewhat (as assumed in this chapter), more options become available. Enterprise-based training is basically a ‘traditional apprenticeship’, in which an individual is placed with an artisan or other small business to learn his[his or her] craft over a longer period of time. This requires a measure of trust between the artisan and the apprentice, which may be lacking if the latter is, for example, a former combatant. This type of training may be quite useful in rather more ‘stabilized’ communities. Centre/institution-based training will usually deliver the broadest and highest-quality training, and can be considered in the larger towns. Permanent training centres will be able to develop structured teaching methods, attract funding and cooperate with NGOs more easily than ad hoc training. Moreover, a training institute provides shelter for social groups who might otherwise be left out of the formal education system, like women. Before establishing a training centre it is important to assess the durability of such an initiative: they’re expensive, require an initial group of capable teachers (who may be difficult to find immediately after conflict) and should be set up only if there is a reasonable chance that the area will remain stable for long enough for this to be a long-term venture. Finally, cooperative training is a combination of institution- and enterprise-based training: an individual will first be trained in a number of basic skills at a permanent institute, and then sent off to work in the private sector to acquire further on-the-job training, rather like an internship.

### 5.3 Private sector development

A productive private sector creates jobs, improves the purchasing power of the population, stimulates the local economy and builds trust between potential business partners.<sup>86</sup> An open market mechanism is likely in due course lower prices (the ‘poverty penalty’), as it is often dominated by local monopolies, strong traditional intermediaries and poor distribution.<sup>87</sup> Through increased private production, more possibilities for export are created, and with this the possibility of obtaining foreign currency. Moreover, the private sector tends to get back on its feet faster than government after conflict, and could implement programmes where there is no government capacity yet.

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86 UK Department for International development (DfID), *Stabilisation through Economic Initiatives: private sector development*, Issue Note, Stabilization Unit, 2009, p. 3.

87 Prahalad, C.K., *The Fortune at the Bottom of the Pyramid; eradicating poverty through profits, enabling dignity and choice through markets*, Wharton School Publishing, 2006, pp. 10-11. For example, research in India has shown that, unlike what one would expect, phone calls, water, credits and medication are all much more *expensive* in the poorer neighbourhoods of big cities than they are in the more affluent ones, owing to local monopolies.

Two types of private sector actors are typically active in fragile states. First, large enterprises (often multinationals) which deal in much-wanted goods such as telecommunications or beer, or are there for quick gains in, for instance, the (lootable) mineral or hotel sector. Such investors get by because they have the resources and (political) clout to deal with corrupt government officials. The second group is the great multitude of small local businesses run by families or individuals. There are often few 'in-between' business ventures active in these countries, as the risk to their investments is too great.

In many ways, this is a missed opportunity. There is always a **market for consumer goods**, as long as these are designed to take account of the specific circumstances of the inhabitants of fragile states: as many poor people have unpredictable income streams (subsisting on daily wages), they will use their cash conservatively and often buy only what they need for that day. Responding to these needs, several multinational companies have started producing single-serving packaging (for tea, shampoo, etc), which has caused quite a revolution in many developing countries. In fact, the 'bottom of the pyramid', of which fragile states are a part, is a huge potential market: 4 to 5 billion underserved people and an estimated economy of more than US\$13 trillion should make quite a few companies stop and think.<sup>88</sup> Developing standardized (deskilled) production processes and goods whose production may be scaled up easily may open up all sorts of possibilities, but it will require companies to let go of their prejudices and view poor people as conscious consumers. By engaging the poor as intermediaries and building on their social networks, a company can increase access, trust and accountability.

As this has not happened on a large scale yet (although the potential should be duly noted), this paper will focus more specifically on the local, smaller private sector. To be sure, the majority of what constitutes the 'private sector' in fragile states does not conform to anything along the lines of what exists in the West. The ILO, for instance, defines the private sector very broadly as "[...] any person who sells something aiming to make a profit [...]".<sup>89</sup> A definition such as this also involves the informal sector, which is basically what the economy revolves around in most fragile states. The informal sector could be roughly defined as the total of unregulated entrepreneurs who operate outside of a judicial framework, pay no taxes and ignore rules and regulations. This is the default position of any entrepreneur when there is no government to regulate his or her business, and is *not* to be confused with the criminal economy. The

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88 Prahalad, C.K., *The Fortune at the Bottom of the Pyramid; eradicating poverty through profits, enabling dignity and choice through markets*, Wharton School Publishing, 2006, pp. 23-46.

89 UK Department for International development (DfID), *Stabilisation through Economic Initiatives: private sector development*, Issue Note, Stabilization Unit, 2009, p. 3.

'informal sector' is no anarchic free-for-all; people adhere to common laws (and common sense), trust and basic decency when dealing with each other. 'The poor', after all, can also be creative entrepreneurs and value-conscious consumers.<sup>90</sup>

The majority of private businesses in fragile states are usually rather small, but this need not necessarily diminish their capacity to contribute to peacebuilding. **Small and medium-sized enterprises (SMEs) are usually more interested in making a difference in peacebuilding than large enterprises** are, as they suffer much more from conflict than larger companies do. On the other hand, smaller companies tend to lack the political clout that large investors have. Private sector development's (PSD's) *potential* for peacebuilding is not questioned, but there is still considerable debate as to its *timing* within the process. DFID and the IFC, for instance,<sup>91</sup> increasingly advocate 'moving PSD upstream' in the recovery process. The UN instead places PSD later on in the process as part of longer-term recovery efforts.<sup>92</sup> Without improvements in the investment climate, the private sector is often restricted in participating in reconstruction processes. However, the context in question may be ripe quite soon for some form of private sector development, and usually there are many entrepreneurs willing to start something straight away.<sup>93</sup>

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90 Prahalad, C.K., *The Fortune at the Bottom of the Pyramid; eradicating poverty through profits, enabling dignity and choice through markets*, Wharton School Publishing, 2006, p. 1.

91 UK Department for International Development (DfID), *Stabilisation through Economic Initiatives: private sector development*, Issue Note, Stabilization Unit, 2009; IFC CASA seminar, September 2009, The Hague.

92 United Nations, *Employment Creation, Income Generation and Reintegration in post-conflict settings*, UN system-wide policy paper, May 2008. The Donor Committee on Enterprise Development (DCED) has brought out an overview of current donor practice in this area and this is a useful document.

93 <http://www.enterprise-development.org/>

Types of Actors	Business Counterparts
<b>Level 1: Top leadership</b> <ul style="list-style-type: none"> <li>• Military/political/religious leaders with high visibility</li> </ul>	<ul style="list-style-type: none"> <li>• Individual business leaders</li> <li>• National chambers of commerce</li> <li>• Sectoral apex organisations</li> <li>• Leading company CEOs</li> </ul>
<b>Level 2: Mid-range leadership</b> <ul style="list-style-type: none"> <li>• Leaders respected in sectors</li> <li>• Ethnic/religious leaders</li> <li>• Academics/intellectuals</li> <li>• Humanitarian leaders (NGOs)</li> </ul>	<ul style="list-style-type: none"> <li>• Small to medium-size enterprises</li> <li>• Regional chambers of commerce</li> <li>• Regional business leaders</li> </ul>
<b>Level 3: Grassroots leadership</b> <ul style="list-style-type: none"> <li>• Local leaders</li> <li>• Leaders of indigenous NGOs</li> <li>• Community developers</li> <li>• Local health officials</li> <li>• Refugee camp leaders</li> </ul>	<ul style="list-style-type: none"> <li>• Shop owners</li> <li>• Traders, including informal sector               <ul style="list-style-type: none"> <li>• Market stall owners</li> <li>• Small scale associations</li> </ul> </li> </ul>

Figure 8: Different types (and scales) of businesses active in post-conflict settings  
(Source: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Sustainable Economic Development in Conflict-Affected Environments; a Guidebook*, 2nd and revised edn, June 2009)

Unsurprisingly, considering the difficult circumstances for economic research and the fragmentation and ‘grey areas’ of the local private sector, PSD in fragile states has not been researched extensively, perhaps with the exception of its influence during disarmament, demobilization and reintegration (DDR) processes.<sup>94</sup> This is an area where PSD has proved its worth: the informal private sector and smaller formal entrepreneurs play an important role by providing vocational training programmes. Tailors, carpenters, welders and other tradespeople commonly take on limited numbers of demobilized combatants as trainees in exchange for (minimal) training fees.<sup>95</sup>

94 Specker, L., R-phase of DDR processes: an overview of key lessons learned and practical experiences, Clingendael Conflict Research Unit, September 2008.

95 Douma, P. and Klem, B., *The struggle after combat: the role of NGOs in DDR processes*, Cordaid synthesis report, 2008, p. 60.

Lessons learned from involving local business actors in DDR may be as relevant for 'normal' people as they are for former combatants.<sup>96</sup>

Basically, two levels of PSD can be distinguished in fragile states. At the micro-level are measures that **foster the productivity and competitiveness of individual companies**, no matter how small they are. The possible role of the private sector in **implementing programmes** has also been mentioned. There is often a sharp increase in donor funding after the signing of a peace agreement, which could well be used for PSD. However, when it can take more than a year to open a business, or the financial system cannot provide sufficient working capital to satisfy local purchase orders, donors under pressure to make disbursements are more likely to turn to faster and accountable international suppliers and NGOs to undertake the bulk of post-conflict reconstruction. This can result in missing an important growth opportunity for many SMEs, so simultaneous steps should be taken to improve the investment climate.

Notwithstanding the potential contribution of PSD to a peacebuilding process, it has certain (political) inherent risks. The more successful companies are, the more likely it is that they will have to involve themselves in politics, either to gain benefits from these connections and to be able to grow, or simply because less-than-scrupulous politicians or other power-brokers will want a piece of the pie. **Entrepreneurs are rarely 'neutral money-makers'**; within networked societies, anyone trying to become successful in business needs to have political connections. This can work to the advantage of the peace process as well, of course. If companies profit more from a calm environment than from a conflict environment, they can use their political clout to **influence national politicians** for the better. However, private entrepreneurs may not always have the creation of a more equitable society highest on their list of priorities. Their main goal, after all, is to make a profit. This was quite obvious during some DDR programmes, where private businesses were reluctant to hire former fighters to work for them. Entrepreneurs will want their business to make money as effectively as possible and former fighters may not be the ideal employees (especially when vacancies are rare already). Moreover, ex-combatants have sometimes retaliated against business representatives, undermining any remaining confidence in the reliability of hiring former fighters.

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96 Douma, P. and Klem, B., *The struggle after combat: the role of NGOs in DDR processes*, Cordaid synthesis report, 2008, p. 151. For example, in Somalia, a partnership between UNICEF, the Canadian International Development Agency (CIDA), a local peacebuilding NGO and a Somali telecommunications company established an agreement for the rehabilitation and reintegration programme of child soldiers. The company provided training and offered placements to graduates at the end of the programme.

Another problem regarding PSD is caused by the presence of the international community itself. In post-conflict contexts, there is usually a wide variety of NGOs providing cheap (because heavily subsidized) agricultural services and inputs. This risks **crowding out private sector involvement** because there is not a level playing field for commercial competition. Promotion of market development should be based on an understanding of the political and economic realities affecting products and input markets, as well as the social relations through which they are structured. There tend to be plenty of private initiatives to build on (after all, people have managed to survive a conflict by using their own wits), but these early initiatives may be fractured or badly understood by the international community.

In addition to this, the **absorption capacity** of the local private sector may be overestimated. In some developing industrial sectors it could be that **expatriate** business people (from the region) have greater capacity to create employment and develop the sector.<sup>97</sup> Finally, although there is increasing recognition of the role of the private sector in providing agricultural inputs and services, challenges remain with regard to stimulating demand and improving the quality of these inputs and services. There still seem to be few practical initiatives in the agricultural sector to promote private enterprise that do not involve large loans or even grants; this will require more out-of-the-box thinking by the international community and the entrepreneurs themselves.<sup>98</sup> **External monitoring** by development organizations, capacity-building and subsidies will be required in all cases.

*Box 13: Public-private cooperation*

*Public-private cooperation* (PPC) refers to the collaboration between public entities (state, local institutions, donors and NGOs) and private companies to realize *public* projects and objectives, i.e. with a view to benefiting the majority, not just the company. Tasks, responsibilities and risks are allocated among the partners, but the government often holds ultimate responsibility for the process. This has usually taken the form of donor governments trying to **attract (international) firms to fragile states**. To attract foreign companies to set up a business in sectors other than the extractive industries (such as mining or timber, which are often fraught with controversy) requires special incentives. Companies, of course, have quite different objectives from those of development agencies; they place profits and continuity above social considerations.

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97 An example would be the influx of Ugandan poultry farmers into South Sudan.

98 Longley, C. et al., *Rural Recovery in Fragile States: Agricultural support in countries emerging from conflict*, ODI, February 2007.

They need to cover their investment costs and there must be some potential for growth. There are limits to risk-taking, even for large enterprises that can afford to bear a financial loss.

To induce the private sector to invest in fragile states, donor governments may consider setting up investment facilities and risk-coverage schemes. For example, the Netherlands' government has adjusted its PSD-funding programmes to better suit the circumstances of fragile states'.<sup>99</sup> The Private Sector Investment programme (PSI) is a subsidy programme operating in 50 countries. It offers financial support to partnerships between Dutch and local companies, in the hope of achieving a transfer of technology and knowledge, and positive spin-off effects for local economies.<sup>100</sup> In order to address the risks of investing in fragile states, the PSI was expanded with a **PSI Plus programme**, which offers extra facilities for risk management and insurance. PSI Plus also allows investors to deal with a wider range of local partners (such as foundations), or enterprises that are not yet officially registered as companies (this is commonly the case where there is no local chamber of commerce).<sup>101</sup> However, finding suitable local partners in fragile states remains a major challenge. A second instrument is the Development-Related Infrastructure Improvement Facility (**ORIO**). ORIO contributes to the development, construction and/or renovation, operation and maintenance of public infrastructure by the private sector, and is available to fragile states as well. Grant applications are submitted by the central government.

PPC will depend on a degree of momentum having been built to attract attention. The Netherlands has recently sent its first PPC trade missions to South Sudan and the DRC, consisting of business representatives, government officials, NGOs and the Clingendael Conflict Research Unit.<sup>102</sup> Several promising opportunities for Dutch and regional companies were identified, specifically in replacing currently imported products and developing exports in the agriculture, fisheries and forestry sectors. The trade missions will, it is hoped, lead to an increased number of applications for the above-mentioned PSI Plus and ORIO facilities.

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99 In Van Beijnum, Specker and Anthony (2007), previous instruments were criticized.

100 The contribution to a project in one of the PSI countries is 50% of the project budget, with a maximum contribution of EUR 750,000. For fragile states the grant is 60% (with a maximum of EUR 900,000).

101 Budgetary guidelines for PSI Plus proposals offer the possibility to include (extra) investments in security. In addition, the EVD will make an extra budget available from MIGA/SIP for political risk insurance premiums

102 For a full report on the Sudan mission, see *Public Private Cooperation in Fragile States; Country Report Southern Sudan*, by the Peace Security and Development Network's PPC working group, September 2009.

### **Private sector development - recommendations**

If it does not directly threaten social stability, **let the market regulate** wherever possible: principles of supply and demand should lead PSD, and one cannot ‘plan’ a market. This may be a chaotic process at first, but markets develop themselves from the bottom up, out of a maze of local initiatives.<sup>103</sup> Effective government regulation will be crucial in some sectors, of course. Regulation should always be based on clear economic assessments and provide benefits to as many people as possible (for instance, by preventing the formation of unfair monopolies), and not for protectionist reasons. The World Bank and IMF could help set standards here.

In order to ensure that the opportunities offered by international donors fit better with private sector needs, **businesses need to be involved during the** planning stages of a programme if they are to have a more substantive role.<sup>104</sup> NGOs could be supported by donors to involve their local business networks in multilateral planning. ‘Market heat mapping’ could be used to identify quick opportunities by giving a visual overview of possible market opportunities in credit, electricity and telephone services.<sup>105</sup>

Be aware of the impact any international involvement may have in a business sector that is fragmented and under-institutionalized. **Where possible, work through local entrepreneurs in cooperation with/instead of international NGOs**, or make sure that working through NGOs does not prevent business from developing by itself. This requires assessments and coordination between international actors, potentially including international (often regional) companies.

**Build the capacity of new and existing entrepreneurs**, according to the role they are willing to play in the peacebuilding process. New entrepreneurs may need skills training to help them respond to pressing needs in local labour markets, support in developing business plans, and start-up capital. Existing entrepreneurs may be able to expand their business through training or financial assistance or loans. This may require the involvement of NGOs specialized in training, as business people are not necessarily good at training others in their skills.

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103 Easterly, W., *The White Man’s Burden; why the west’s efforts to aid the rest have done much ill and so little good*, The Penguin Press, New York, 2006.

104 Banfield, J., Gündüz, C. and Killick, N. (eds), *Local Business, Local Peace: the peacebuilding potential of the domestic private sector*, International Alert, 2006, p. 148.

105 UNDP, *Creating value for all: strategies for doing business with the poor*, 2008, p. 9.

Consider **financial subsidies to small and medium-sized enterprises (SMEs)**, provided their proposed business activities conform to market trends. When credit facilities are severely constricted, grants or loans have been offered to SMEs in exchange for promises to create productive employment opportunities. Financial subsidies may be used to purchase materials and equipment and/or pay the salaries of new staff.

Consider the **provision of resources (e.g. cash vouchers) to consumers to purchase inputs and services**. By providing people with the resources to purchase inputs and services, they might become customers of emerging service-providers. Generally, vouchers are considered more secure and allow for closer monitoring than direct cash transfers. They may also be more appropriate than in-kind aid if roads are unsafe and it is difficult to transport goods.<sup>106</sup>

Starting up a **business incubator** may boost private sector competition. Business incubators offer a central place for entrepreneurs to gather information and receive support to set up or continue with their businesses. They facilitate the sharing of costs for services (Internet, operating costs, etc) and lobbying for reforms. Support packages are generally a mix of financial investment and technical assistance. Business incubators can be privatized, but it might be difficult to persuade entrepreneurs with a small budget to pay for the incubator's services. Linking the incubator to (micro-) credit opportunities could help to overcome these difficulties.

## 5.5 Micro-finance

Micro-finance basically refers to either **grants** or **loans (credits)**. The benefits of micro-finance in promoting income generation in 'normal' developing countries are commonly accepted. The challenges of initiating or extending it in *post-conflict* environments are less well explored. Micro-finance may support household incomes, self-employment and the forming of small companies and is considered a popular cause by many donors.

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106 Jaspers, S. and Maxwell, D., *Food Security and Livelihoods programming in conflict: a review*, Humanitarian Practice Network (HPN) network paper, No. 65, March 2009.

This is mostly due to the good press it has received and to the rather spectacular figures it generates: worldwide, some 90 million people are taking part in micro-credit schemes already.<sup>107</sup> The **target group for micro-finance** in the immediate post-conflict phase could be returnees, IDPs, demobilized soldiers and, potentially, ex-combatants, or it could be extended to cover the broader community (given stability and the likelihood that stability will endure’).

The various beneficiaries of micro-finance differ in their pre-existing assets and education. **Women** have an especially good track record with micro-credits. They have less difficulty obtaining a loan (as they tend to be considered less ‘political’ and less risky borrowers than men), and seem to be more likely to use the return on their investment for the benefit of their families. One of the advantages of micro-finance is that, since loans are often given to groups, and the members of the group are responsible for ensuring that everyone repays his or her share of the loan, social pressure is likely to keep everyone in line. The larger micro-finance institutions (MFIs), such as the well-known Grameen Bank, tend to add preconditions to loans in order to bring about social change. For instance, loans will not be given for buying consumer goods or for the payment of dowries, but only for profit-making schemes. Part of the profits Grameen makes out of interest rates are put into a ‘rehabilitation fund’ used for development projects to benefit the poor. One of the most important ideas behind micro-credits is that they are **relatively free of assumptions** about development: they merely offer opportunities to people and leave it up to them to use their own business instincts to make a difference.

However, micro-credits are not the one-stop solution to poverty that they are sometimes presented as. First, micro-credit schemes **may take quite a long time to set up**, especially if it is decided to work through the larger, well-known banks. Second, it may be a while before business schemes become profitable enough to be able to repay their loan. Rural credit schemes have failed where the debt-bearing capacity of local people was overestimated, or where there was too little knowledge of **already existing (informal) credit systems**. Third, forming local groups of borrowers may also be difficult where people are widely dispersed across the countryside, or where social tensions are high. After conflict, communal solidarity may have been replaced by mistrust and a ‘monetization of social exchange’, based on simple reciprocity more than anything else. Finally, MFIs need to make a profit as well, in order to grow, and

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107 Van Maanen, G., ‘Waarom Yunus de Nobelprijs krijgt’, letter to NRC Handelsblad, 2 November 2006, <http://www.oikocredit.org/site/nl/doc.phtml?p=NIEUWS3&article=230> However, UNDP notes the lack of specific data on the exact size, profile and especially impact of micro-finance in post-conflict societies.

a diversified clientele may be necessary to allow the spreading of risk.<sup>108</sup> Interest rates may seem extremely steep (occasionally as high as 20%), although much of this is due to the personnel costs entailed in managing thousands of tiny loans. Not all banks, moreover, are as high-minded as the larger, well-known banks are in the way they reinvest their income from interest .

Most importantly, micro-finance *alone* is unlikely to solve the problem of lack of business opportunities and credits that SMEs need in order to grow. This is something that can be accomplished only through significant financial sector reform. The UN,<sup>109</sup> in line with ILO indications,<sup>110</sup> states **three preconditions** that should be considered before micro-finance is undertaken: 1) sufficient political stability; 2) sufficient economic activity *capable* of using credit services; and 3) a relatively stable client population. Other influential factors could be the functioning of commercial banks, a minimum level of state capital and of trust between entrepreneurs and minimal levels of macro-economic stability (especially regarding inflation and interest rates).<sup>111</sup>

*Box 14: Telecommunications and mobile banking*

One of the most successful sectors in which micro-finance has made a difference in is that of telecommunications, a huge growth market in developing countries. In Uganda and Bangladesh, for example, women have been trained to become ‘telephone operators’: They buy a handset and a roof-mounted antenna (or simply a mobile phone) with the help of a micro-credit, and by selling phone calls to fellow villagers, they make a small profit and can then repay their loan and expand their business or set up new ones. Access to telecommunications allows sellers to make the most out of their produce, as it enables them to compare regional prices and negotiate with a wider range of buyers before selling their wares. According to a recent study, an extra ten mobile phones per 100 people in a typical developing country boosts growth in GDP per person by 0.8 percentage points.<sup>112</sup>

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108 International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003, p. 231.

109 United Nations, *Employment Creation, Income Generation and Reintegration in post-conflict settings*, UN system-wide policy paper, May 2008.

110 International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003,

111 United Nations, *Employment Creation, Income Generation and Reintegration in post-conflict settings*, UN system-wide policy paper, May 2008, pp. 16-17; International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003, pp. 226-227.

112 ‘A special report on telecoms in emerging markets’, *The Economist*, 26 September 2009.

Fragile states are no ‘ordinary’ developing countries, but warlords want their phones to work too: Celltel launched its networks in Sierra Leone and the DRC during civil wars, and both did very well. Finally, the spread of mobile phones also has political and social advantages; for instance, reporting human rights violations is made easier. The Economist reports how Pakistani officials call buyers and sellers of land at random to check whether they were asked to pay a bribe by the local clerks handling the transaction, thereby acting against corruption. Finally, mobile phones are increasingly used in mobile banking, in which prepaid calling credit is used as ‘informal currency’. An individual buys a top-up voucher for the amount they want to transfer, calls the village phone operator, reads out the code on the card, and transfers the money to the operator’s phone; the latter then hands the cash sum to the designated recipient, minus a small commission. In areas where infrastructure is poor and people are widely dispersed, this is an innovative and safe means of transferring money.

## 5.6 Micro-finance - recommendations

When considering micro-finance as an investment in a particular part of a **value chain** (see box 9), consider funding the other components of the chain as well, to create a multiplier effect. Businesses will work most effectively if they link into other growth sectors.

Depending on the window of opportunity, think creatively about setting up speedy micro-credit schemes, for instance through trust funds administered by local NGOs. **Decentralize credit schemes as much as possible:** loans should be taken *to* the borrowers, and local staff should be able to assess the added value of credits (as opposed to unofficial local lending) and make their own decisions based on these assessments.

**Use existing organizations for micro-finance**, rather than developing new ones. As mentioned, relief agencies and NGOs could help with the creation of sound local micro-finance institutions,<sup>113</sup> and play a marketing role by assisting some of their beneficiaries to improve their profile as borrowers, thereby giving them a competitive edge when they apply for loans.<sup>114</sup> This process could be supported by multilateral trust funds or by regional development banks.

Consider **credits to particular high-needs groups**. An example is the ‘Village Civilian Loan System’ as implemented in Burundi by the NGO

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113 International Labour Organisation (ILO), *Jobs after War: a critical challenge in the peace and reconstruction puzzle*, 2003,

114 *Ibid.*, pp. 229-230.

CARE.<sup>115</sup> The CARE approach aims to minimize the risk of loans not being repaid by bringing together women's groups to put money into a **communal fund**, comparable to an internal banking system.

Look beyond small firms, and consider making credit lines or grants available to **medium-sized and large private firms**. Larger companies are often able to contribute on a much bigger scale to employment creation. A creative way of engaging with larger companies in fragile situations is DfID's '**matching grant**' system, in which a company invests a certain sum, which is then matched by DfID from a quick-to-use fund.

Micro-credit provided to **ex-combatants requires parallel, long-term support programmes**. The prospect of receiving a loan has been an incentive to former fighters to surrender their weapons, but not all subsequent experiences with micro-credits during DDR have been equally good. Credits have occasionally been regarded by these former combatants as a 'reward' for services rendered during the war, which need not be repaid. Moreover, providing credits to former fighters without teaching them the skills to do anything with them (like farming or running a business) has led to a whole host of ineffective initiatives.

Finally, **provide skills training to entrepreneurs**. Not everybody has the skills and personality to be a highly successful business person, but training can help them at any rate to make the most of their investment.

### 5.7 From 'Peak 2' to 'Peak 3'

As in the previous chapter, it is difficult to set exact benchmarks indicating when to shift the main effort from community aid to broader, national work on creating the enabling environment for economic recovery. A few are worth mentioning, however:

*Political stability is increasing*, and the involvement of communities has led to a growth in capacity and confidence. Communities are developing their own coping mechanisms, assertively engaging with the opportunities that the programmes bring.

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115 Specker, L. and Briscoe, I., Early Economic Recovery in Fragile States: Case study Burundi, challenges to project implementation, forthcoming 2009.

Success will depend entirely on the *commitment of local communities to inclusive economic development* (involving the high-risk groups), so a good indication that the approach is working is the lessening of community tensions. DDR practitioners have many review mechanisms to check whether former combatants and their families feel accepted within society, and these could be useful here as well.

There is a notable increase in trade and other contacts within regions, the 'economic action radius' expanding within the country (spreading rather like an ink stain). This is complemented by national authorities paying greater attention to what is happening at local level, and trying to (positively) link state initiatives to local development.



## 6. Track 3: Creating an enabling (national) environment

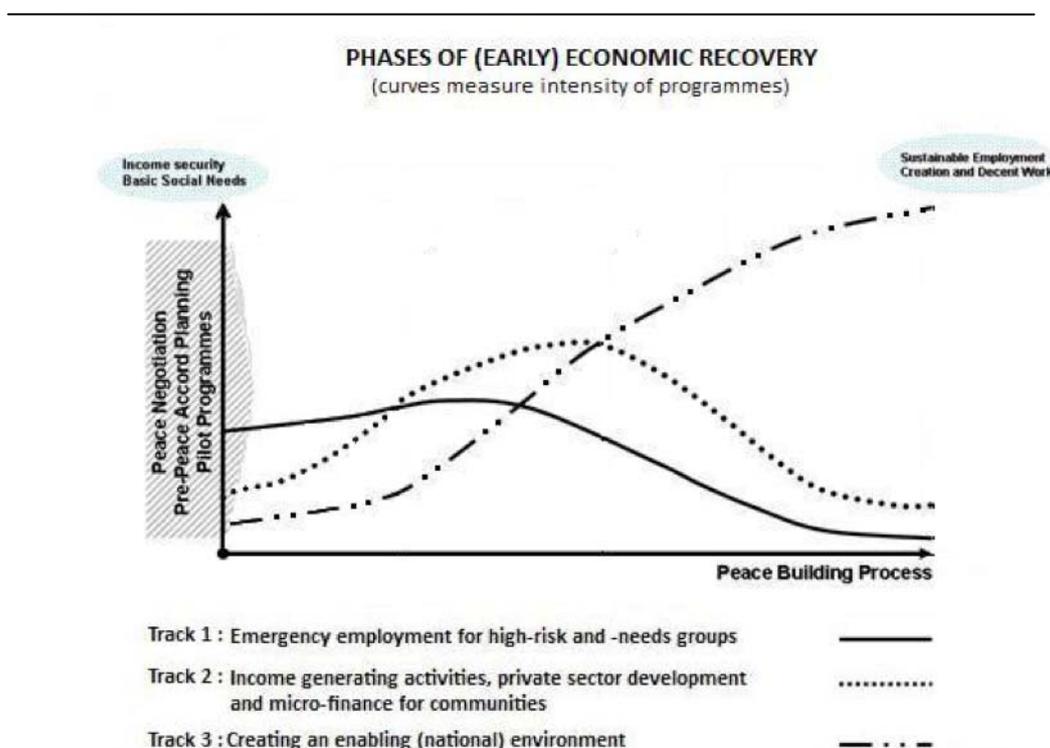


Figure 9: Phases of (early) economic recovery

(Source: UNDP/BCPR, Post-conflict economic recovery: enabling local ingenuity, 2008)

‘Track 3’ – working on institutional capacity for economic recovery – is probably still the most neglected of the tracks. There is a tendency in donor circles to focus attention (and resources) on the ‘direct’, seemingly quick-impact work of Tracks 1 and 2. However, early economic recovery is a holistic process. While activities are initiated ‘on the ground’ for high-risk and high-needs groups, it is crucial to **start building official capacity (on all levels) from day one**, so the agencies of the state can assume their economic

responsibilities as soon as possible. The aim of dealing with high-risk and high-needs groups, building stability and broadening the impact of development so that it includes communities is to build bottom-up momentum for changes ‘at the top’. State-building is ideally a two-pronged process, where local gains and an enabling national environment for development mutually reinforce each other. As stated in the previous chapters, fragile states will differ fundamentally as to where building state capacity should begin, depending on the number (and quality of) the institutions ‘left standing’. Track 3 ‘peaks’ last, but as its activities are relatively broad, and partly speculative, this chapter will set out a number of ideas based on the momentum of the peacebuilding process. Again, this is a theoretical division; choices regarding what to focus on will be context-specific.

### 6.1 Early post-conflict phase

Immediately after conflict, getting national (economic) actors together is easier said than done. There may be a peace accord, but there are likely to be all sorts of tensions between the various competing groups at this early stage. With their futures (and sometimes their lives) uncertain, this is usually not the best time to count on the altruism of either local or national leaders: there is a chance they will try to get the most out of the uncertain situation for their own group. Mediators could consider, however, trying to work out some kind of **‘bargain between elite groups’**, whereby the leadership of different influential social factions – political movements, armed forces, militias, tribes, business leaders – strike a **basic working agreement on the sharing of power and the (economic) resources** that power provides.<sup>116</sup> The peace agreement has usually set the theoretical framework for such a bargain, but implementing it will require (close) attention by external actors. It will be almost impossible to stop the various factions from favouring their own groups at this stage, but if they can be convinced that *national* economic reconstruction, more than anything else, will be in their own (competing) interests, a return to zero-sum competition and violence may be averted. This will also require mediation between protagonists with their differing ideas on *how* to restructure the economy in the future: if the conflict in question was based on ‘traditional’ economic issues like land reform, this may be quite a challenge.

Creating this **‘broad coalition’**, and asking the various power-brokers to jointly set out priorities and strategies for economic reconstruction, will improve the chances of creating economic benefits for the broader society, and

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116 This happened before, in Pakistan (army and citizens), Zambia and Tanzania, as mentioned in I. Briscoe, *Chasing the Tigers: Can Fragile States copy the Asian Miracle?* Conference report of seminar in Madrid, Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), 7–6 October 2008.

stabilizing the situation. Various international agencies can come in fairly soon to start their assessments, provide technical support and help this process along. The World Bank, for instance, would be able to calculate a rough framework for budget development and sketch some development options early on. On a macro-level, but with important ramifications for local markets, the IMF can potentially slow down inflation by adjusting the exchange rate of the national currency. In some cases, donors might even consider providing budget support (although strongly ring-fenced and closely supervised) to at least provide some income to the state so it does not collapse before more structured development can gain momentum.

## 6.2 Intermediate phase

Once cooperation between the various former protagonists is functioning to some extent, the **focus should shift from political-economic actors to institutions**. Although the need to put official institutions in charge of their country's development is not disputed, there is no single method for successfully achieving this. One or two promising ideas have been put forward, though. Ashraf Ghani and Clare Lockhart suggest making the national budget the central instrument **of policy**.<sup>117</sup> Obviously, donors would not have to channel their funds through the central budget from day one, given the lack of capacity and risk of corruption, but donors could at least *align* their funding with the budget cycle. This would ensure that the disbursement of funds would become more predictable, and make planning ahead easier as national governments would not have to worry about when the next instalment would arrive.

In the meantime, the capacity of **line ministries**, independent auditors and parliamentary oversight could be built, so that in due course funds would go directly through the central authorities, thereby significantly reducing transaction costs and improving cooperation. One idea would be to connect an MDTF to public finance management, something the World Bank is particularly skilled at. Paul Collier, in similar vein, suggests creating independent service authorities in which the government, representatives of civil society and donors all reside together.<sup>118</sup> Donors could then support civil society to monitor the government's prioritizing and spending of funds. Good governance is considered, correctly, to be a transparent process between governments and *their populations*, not between governments and donors. In the

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117 Ghani, A. and Lockhart, C. *Fixing Fragile States; a framework for rebuilding a fractured world*, Oxford University Press, 2008.

118 Collier, P., *The Bottom Billion; why the poorest countries are failing and what can be done about it*, Oxford University Press 2007.

end, though, it will be the context of the country in question (and the will of the government) that will set the stage for a workable model.

Two more economic issues are also worth noting at this stage. First, addressing **regional disparities** is likely to become more of a pressing issue when communities start feeling the effects of development. Some regions will simply develop faster than others, but if the peace is to be maintained, the dividend of stability should be felt by everyone. At national level it might therefore be possible to coordinate the efforts of provincial and local government, NGOs and the private sector to identify cross-regional opportunities for entrepreneurs and set up joint regional initiatives through workshops and action plans. A second key issue is to make sure there is as little interference as possible for people receiving remittances from abroad. Worldwide, the total remittances sent home by the diaspora (usually family members working abroad) amount to more per year than the overall development aid provided by all donors combined.<sup>119</sup> There may be considerable (as yet untapped) potential in setting up a nationally structured network of post offices or transfer services in provincial capitals, and informing people about how to use these.

### 6.3 The longer term

In the longer term, for growth to be self-sustaining the state **should ideally be able to set and control ‘the rules of the game’ for a market economy**, so individuals can access the legal tools and formal rights to buy and sell property, divide labour among themselves and gain access to the extended market. To create more possibilities for people to make a living (and remove incentives to return to violence), prevent the previously mentioned ‘resource curse’ from crippling governance and make the state more resilient to economic shocks. **Diversification of the market** and a wider range of international investors attracted to the country are important goals for the future.

Diversifying the market is easier said than done, of course, and will depend on the particular ‘global niche’ the fragile state in question is able to fill. The difficulty is that, owing to international trade barriers, many fragile states have to offer, other than their manual labour. In this, though, they are at a serious disadvantage vis-à-vis Asia. Asian countries already provide the West with cheap manufacturing *and* have the rules and regulations that make for safe investments. It might take years before wages in Asia have risen so much that companies will consider moving to a cheaper place, so waiting for this to

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<sup>119</sup> The aid workers who really help’, *The Economist*, 10 October 2009, pp. 60–61. Foreign workers send more than US\$328 billion from richer to poorer countries, more than double the US\$120 billion in official aid flows from OECD members. It should be noted that not all remittances are reinvested in fragile states, of course

happen is not an attractive prospect. As mentioned, there is a huge and growing market for foreign goods, but many companies still view 'fragile markets' as cash-starved black holes, instead of as a possible consumer base. Market diversification runs up against political issues as well. The skewed way the (often resource-based) economy tends to work in these countries is quite beneficial to elites and power-brokers; why would they change the way the system works?

All this serves to emphasize the need for *early* attention to economic recovery and reform, more than has been given in the past. This is not going to be a quick process, and nor should it be; post-conflict countries should be allowed to join the world economy at their own paces. Opening up the market to global trends without building competent institutions to manage trade flows and mediate in business disputes could be disastrous (as many structural readjustment programmes of the 1990s showed). Creating the political will for reform might come about through a two-pronged approach: 1) working on development from the ground up (as the previous chapters have discussed extensively) so local people can show their leaders the benefits of diversification; and 2) donors and the international community pushing for change from the top down. Building the capacity of supervisory or regulatory institutions like **central banks or customs agencies** may stop resources being diverted for political ends through money laundering or smuggling.

*Box 15: Zimbabwe: working on long-term macro-economic stability*

Zimbabwe's continuing economic deterioration and massive inflation led UNDP's country office to carry out a macro-economic analysis of the situation in 2007. The objective of the initiative was threefold: 1) to assist UNDP Zimbabwe to better understand the magnitude of the challenges that Zimbabwe was likely to face in a future recovery scenario and to programme activities accordingly; 2) to raise the level of the national debate around recovery issues and the various trajectories available to Zimbabwe; and 3) to assist other development partners, including the Bretton Woods institutions and bilateral donors, in their forward planning exercises.

The report mentions widespread distortions in fiscal and monetary management which act as impediments to saving, investment and production. To restore some semblance of macro-economic stability, the report advises a holistic package of reforms in areas ranging from trade policy, public enterprises, financial sectors, agriculture, manufacturing, mining, the informal sector and SMEs to the labour market. These are subsequently sequenced, prioritized and broken down into short-, medium- and longer-term actions.

A practical idea is to start working on those **policy changes** that will be least controversial with the majority of the elites (and do not have the direct potential to lead to renewed conflict), such as easing regulations for foreign investors to come to the country. Another idea is to implement *potential* new regulations in specific areas first and ‘try them out’ to see how they work in practice, before adopting them for the entire country. Once the cutting of red tape gains momentum, more controversial issues may be addressed as well, but it will remain a balancing act. Elites have their own patronage networks to keep happy after all, and it may take a long time for them to fully back legislation that might not benefit them. For instance, the defence budget may be a huge drain on the treasury, but downsizing the armed forces may be too directly threatening to certain politicians for them to cooperate with it. The best chance may be to **create ‘mobile social pacts’ or coalitions** between the various interest groups around specific economic policy initiatives, so that there is a measure of mutual control between them.<sup>120</sup>

Although many economic sectors in fragile states will require adaptation, one of the best places to start is the **agricultural sector**. The fact that agriculture provides livelihoods to millions of people, but land is a highly conflict-prone area, means that this issue must be addressed cautiously. Longer-term agricultural reform might include changes in land tenure policies and rural government structures. Uncertain or unenforceable land tenure laws hamper productivity, as they reduce the incentive to invest in property (as one’s investment basically is not secured). An important step to take could be the registration of land ownership. Doing so, and allowing people to use their land as collateral in to obtain (micro-)credits and loans, might lead to an increase in entrepreneurship.<sup>121</sup> All in all, agricultural support should be developed with an eye to creating a broader institutional framework to protect and promote rural livelihoods and institution-building.<sup>122</sup> As this would require quite extensive institution-building, it is going to be a long-term undertaking.

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120 Briscoe, I., *Chasing the Tigers: Can Fragile States copy the Asian Miracle?* Conference report of seminar in Madrid, Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), 7–6 October 2008, p. 11.

121 de Soto, H., *Het Mysterie van het Kapitaal; waarom het kapitalisme zo’n succes is in het Westen maar faalt in de rest van de wereld*, Het Spectrum, Utrecht, 2000.

122 Longley, C. et al., *Rural Recovery in Fragile States: Agricultural Support in countries emerging from conflict*, ODI, February 2007, p. 4 .

*Box 16: Land tights: Burundi, DRC and Colombia*

Burundi, the DRC and Colombia all show the potentially escalatory nature of struggles over land ownership.

The scarcity of fertile or arable land in heavily populated areas in **Burundi** leads to tensions among the population.<sup>123</sup> According to Cordaid, some 70% of judicial disputes are about land issues.<sup>124</sup> The DDR process has added to this problem: the successful reintegration of former combatants will depend on them returning to their family lands and being able to provide for their families. With the shortage of land, migration to urban centres or neighbouring countries is increasing. Local communities try to solve problem of land shortage on an ad hoc basis, but without sustained and objective national involvement this seems likely to remain no better than a stopgap measure. Burundi has set up a national commission on land rights (Commission Nationale des Terres et Autre Biens) to work on the issue, supported by the Netherlands and Switzerland, but political interference into the lucrative land business remains a hindrance. Developing alternatives to rural livelihoods seems to be the only durable solution to Burundi's land crisis.

In the **DRC** there is not necessarily a shortage of land, but land rights have become highly 'ethnicized'. The Bakajika land law of 1966 stated that (the great majority of) land held under customary law had no legal status, leading to a free-for-all in which political and economic power-holders grabbed as much land as possible. In the already tense atmosphere of the Kivus, most of the land became the property of small groups of big land and cattle owners belonging to particular ethnic groups (Tutsi, BaHunde, Nande), who alienated small farmers from their lands. By the 1990s, these land disputes had become linked to the wider conflict over political power and resources, since land provided leaders with an economic base for their supporters. As influential politicians and generals from Kinshasa also have interests in the area, the ethnic polarization over land deepened.

In **Colombia** the ownership of land has historically been a sensitive issue, and is at the root of today's troubles. The government is currently retaking large swathes of land from FARC and ELN and implementing development programmes there, but the issue of land title remains largely unresolved. The main (though largely unsubstantiated) obstacle to reform seems to be the stake certain national politicians and other power-brokers have in lands; a transparent title process would not necessarily work in their favour.

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123 Uvin, P., *Life after Violence; a people's story of Burundi*, p 185: "Farming is a prison to most Burundians [...] desperately want to reduce their dependence on the land [...through] education, migration and hard work."

124 Mentioned in MARVEL-meeting 'more than the sum of its parts'.

The Ministry of Agriculture has promoted (large-scale) commercial rather than small-scale agriculture for years, which was quite an obstacle to reaching a national consensus on an equitable formal title system. Finally, Colombia is obliged to respect the 1994 UN convention on biodiversity and has a strong domestic environmental lobby, which pushes for the preservation of national parks and special-use zones. All these difficulties add up; when the Colombian Congress did finally come up with a new law on formal title, it was shot down by the Constitutional Court.

Finally, several donors provide **budget support** to fragile states. As well as [the previously mentioned use of budget support to prevent a state from collapsing in an early phase, budget support is the 'ideal' situation to work towards: putting local government in charge of implementing their own priorities, while building its capacity to do so. However, some basic (but firm) conditions apply. There must be: 1) government policies that contribute to political stability and include engagement with any remaining rebel factions; 2) a focus on poverty reduction and accompanying budget proposals to improve the socio-economic climate; 3) positive IMF evaluations of macro-economic stability; 4) sufficient openness of the government to international partners, to enable a productive dialogue about reconstruction.

In the end, it is necessary to be sceptical about over-blown expectations for the economic development of fragile states, but equally guarded against overt pessimism. True, fragile states are in a highly disadvantaged position vis-à-vis other developing countries, but that does not automatically mean they will always stay that way.<sup>125</sup> Although the DRC and Sudan will find it very difficult to become Ghana or Botswana in the near future, a post-conflict country like Rwanda has just, at the time of writing (2009), risen 60 points in the World Bank's 'Doing Business' index. It is outside the scope of this paper to address international trade and financial measures that might make for a more conducive international environment for the development of fragile states, like lifting export tariffs or improving regional infrastructure around landlocked countries.

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125 As a recent FRIDE report notes, South Korea in the 1950s attracted many of the same comments as many fragile states do nowadays: a corrupt rural backwater without any opportunities for future development. After a few decades of development aid strictly focused on capacity-building and market diversification, South Korea developed into one of the 'tiger economies' of Asia. Of course, this was a different time and place, but the comparison is interesting, to say the least. Briscoe, I., *Chasing the Tigers: Can Fragile States copy the Asian Miracle?* Conference report of seminar in Madrid, Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), 7–6 October 2008.

#### 6.4 Creating an enabling (national) environment: recommendations

Donors should agree that they have reached a **'handover' phase**. This means working more and more holistically: alongside economic development, it will be necessary to focus for instance on improving the courts (so that labour disputes can be settled there) and improving institutional capacity to take over in due course.

In the early phases after conflict, in countries where economic institutions are lacking and there is great mistrust between economic actors, encourage them to strike a **basic working agreement on the sharing of power and of the (economic) resources** it provides. This may give enough stability to enable work to start on more fundamental reforms.

In the intermediate phase, the **focus should shift from political-economic actors to institutions**. Making the national budget the central instrument for economic policy, building the capacity of line ministries and independent auditors, or creating independent service authorities, may all be helpful.

In the longer term, **create a business-enabling environment**. Start as soon as possible; reducing red tape or simplifying tax codes may produce immediate results. A useful assessment tool for business policies is the World Bank's Foreign Investment Service's **Administrative Barriers Report (ABR)**. The ABR provides for extensive, in-depth assessments of institutional barriers to business development, but these usually take months to set up.

It is very difficult to promote employment in a sustained manner in the absence of favourable **macro-economic policies**. Key intervention areas are fiscal, active labour market and investment policies, as well as support for the financial sector, business development services and promoting labour-related institutions.<sup>126</sup>

**Support land tenure and access to land** (see box 16), as part of a business-enabling environment.

Consider **multi-donor trust funds** as a tool to support projects aimed at longer-term economic recovery. Even though MDTFs have been criticized for slow disbursement of funds, they seem appropriate for longer-term recovery efforts.

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126 United Nations Development Programme (UNDP), *Post Conflict Economic Recovery; enabling local ingenuity*, BCPR report, 2008, p. 18.

In specific circumstances, consider budget support. This is highly dependent on the commitment of the receiving government in question to solve remaining conflicts fairly, poverty reduction and above all the level of corruption.

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