ACCELERATING THE TRANSITION FROM CONFLICT TO SUSTAINABLE GROWTH

VALUE CHAIN DEVELOPMENT IN CONFLICT-AFFECTED ENVIRONMENTS

microREPORT #111

FEBRUARY 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Adina Saperstein and Ruth Campbell of ACDI/VOCA under a subagreement with Pact, Inc., sub-contractor to Weidemann & Associates, Inc. under USAID's Accelerated Microenterprise Advancement Project.

ACCELERATING THE TRANSITION FROM CONFLICT TO SUSTAINABLE GROWTH

VALUE CHAIN DEVELOPMENT IN CONFLICT-AFFECTED ENVIRONMENTS

microREPORT #111

CONTENTS

ACRONYMS

AMAP	Accelerated Microenterprise Advancement Project
BDS	Business development services
CAP	Community Action Project
DDR	Disarmament, demobilization and reintegration
FDI	Foreign direct investment
GDP	Gross domestic product
IDP	Internally displaced person
ILO	International Labor Organization
LED	Local economic development
MSMEs	Micro-, small and medium-sized enterprises
NGO	Non-government organization
PRA	Participatory rural assessments
SEEP	Small Enterprise Education and Promotion
SMEs	Small and medium-sized enterprises
UNDG	United Nations Development Group
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

The objective of this literature review is to explore the existing literature for lessons, tools and insights on the development and implementation of economic recovery and growth interventions—and particularly value chain development initiatives—in conflict-affected environments. This paper examines the causes, impacts and implications of conflict through the lens of economic growth, including an examination of the constraints and opportunities created by conflict for each element of the value chain framework. This is followed by an analysis of the implications for the design and implementation of value chain-based interventions in conflict-affected environments, based on the various stages of the project cycle. Finally, preliminary conclusions are drawn concerning how the value chain approach can contribute to the sustainable rebuilding of market systems in conflict-affected situations, and several tools are identified for development.

The AMAP *Value Chain Development for Conflict-Affected Environments* project aims to fill critical gaps in the body of existing research and analysis on economic development by proposing a framework and set of recommendations for fostering sustainable economic growth in conflict-affected environments. This literature review is the first step in a multi-step process, including a subsequent examination of economic development projects through 12 specially commissioned case studies. From these case studies, a synthesis paper will be produced that provides recommendations and lessons learned on the application of value chain principles and tools in conflict-affected situations. These will serve as a guide for identifying and sequencing interventions throughout the relief and development processes based on the specific context and dynamics of the conflict and post-conflict environment.

The stages of recovery in conflict-affected environments are rarely clearly defined or linear. Nevertheless, there is generally a period when relief activities are the priority for donors and implementing agencies, and a period when sustainable economic development is considered to be essential. The goal of this project is to facilitate the strategic incorporation of economic development (and specifically, value chain development) activities into the relief and reconstruction phase in order to reduce the economic drivers of conflict and to lay the groundwork for a more rapid transition to sustainable development.

A range of value chain development approaches and tools have been developed by donors and implementing agencies in the last several years, which have similar characteristics to USAID's, including the focus on tracing the process of value-adding transactions as a product flows towards its final market, and on the governance structures and enabling environment issues that affect this process. USAID's approach differs from many of these articulations of the value chain approach in i) its application throughout the entire project cycle, and ii) the depth of its analysis of value chain relationships and how they affect the flows of power, learning and benefits. These two aspects make the value chain approach highly relevant to economic development programming in conflict-affected environments.

There have been several debates over the past decade on the relative significance of the many causes of conflict—economic, social, political and cultural. The literature reviewed for this paper explores how economic grievances and commercial agendas intertwine with social and political motivations to drive specific conflict situations; how the specific process by which these motivations interact to form conflict depends on a range of historical and current domestic, regional and international socio-political and institutional factors; and how this confluence of causes and triggers makes for constantly evolving conflict. Research suggests that conflict often emerges from non-economic motives (ethnic or cultural differences or political motivations), which are mobilized, transformed or intensified by economic factors, including overall economic failure, economic inequality (particularly between distinct ethno-linguistic, religious or social groups) or access to illicit sources of finance. This literature review aims to understand those causes of conflict that are likely to affect value chain development in post-conflict environments by examining the potential impact of conflict on each of the elements of the value chain and, conversely, the potential of these elements for driving or mitigating conflict. These elements are end markets, the business enabling environment, inter-firm relationships, vertical linkages, horizontal linkages, supporting markets and upgrading. This literature review also explores the implications of conflict on the value chain project cycle.

The first phase in the value chain project cycle is industry or value chain selection, which is informed by three elements: potential for competitiveness, anticipated socio-economic impact and anticipated impact on cross-cutting issues. In post-conflict environments, the context of conflict needs to be incorporated into each of these factors as it:

- *impacts the potential for industry competitiveness.* The impact of conflict substantially undermines the potential for competitiveness of almost any sector or industry.

- *affects the nature and depth of cross-cutting issues.* Conflict intensifies existing cross-cutting concerns and often introduces new ones as traditional social structures are thrown into imbalance. Cross-cutting issues, such as health, education, preservation of traditional social structures, security and human rights, also help to determine levels of social capital, and therefore help to define the limits of competitiveness of any industry. These issues need to be identified and prioritized as part of conflict/post-conflict assessment and addressed in industry selection and project design.

- *is both a direct and indirect target for impact.* Conflict both shapes the possibilities for general socio-economic impact as well as constitutes its own category of potential impact in terms of conflict mitigation or transformation through strengthened livelihoods security, employment of vulnerable and conflict-prone groups, income redistribution and rebuilding trust through economic participation. *Short-term impact* will contribute to minimizing economic drivers and triggers of conflict and to building the foundations of industry competitiveness; *long-term impact* will be realized by achieving competitiveness in targeted industries.

Value chain analysis is one of many assessment tools already being applied in post-conflict situations. Time and resource constraints in post-conflict environments heighten the importance of streamlining assessment tools, maximizing coordination and efficiencies with other agencies and assessments, and building on data collected during the conflict analysis and sector selection stage.

The value chain approach serves as a framework to compare the pre- and post-conflict economy, helping to identify points where market structures still exist and can be salvaged with the right interventions, and points where market structures are beyond repair and need to be rebuilt. A first step in value chain analysis is to identify which firms were engaged in the various activities and transactions that brought the product or service from conception to final markets. Value chain analysis of the current status of the industry will reveal which of these firms are still in existence, how their activities and functions have changed as a result of the conflict, and their current location, capital base, turnover, etc. It will also help reveal how market channels have been affected by conflict—including the demands of local, regional and global end markets and the structural constraints to responding to these demands.

A subsequent phase in value chain development is designing competitiveness strategies. Much of the literature on post-conflict economic recovery focuses on immediate employment generation—particularly for vulnerable populations, linking populations in need of work to immediate reconstruction activities, and providing training to develop generic vocational or business skill sets likely to be in demand by the nascent or re-emerging private sector. However, employment generation programming—including cash for work, vocational training and assistance to micro-enterprises and farmers—should be linked into the value chain development framework in order to provide immediate incomes while simultaneously building the foundations for broader economic recovery and growth through industry competitiveness.

No matter how devastated a post-conflict environment appears at first glance, it should be recognized that economic structures existed prior to the conflict and that some are most likely still functioning. It should be an immediate priority to identify any economic actors, structures and mechanisms that have survived the conflict in order to salvage and build on them. This "asset-based" analysis will safeguard post-conflict interventions from inadvertently destroying remnants of economic viability and creating dependency, and facilitate more rapid impact.

Preserving and rebuilding compromised vertical and horizontal linkages and the trust that enables those linkages to function is one of the keys to establishing a foundation for post-conflict recovery and growth and should be a focal point for the intersection of relief and development interventions. Strategies to build trust include facilitating structured dialogue, developing "riskable" steps through safeguards, guarantees, transparent systems and risk sharing, and the use of trusted intermediaries.

I. INTRODUCTION

Economic factors are widely recognized to be among the leading drivers of modern conflict. Such factors include lack of access to basic goods and services, deterioration of livelihoods, limited opportunities available to specific groups, and the escalation of illicit activities. While hundreds of conflicts have emerged over the past decade,[1] triggered by a complex interplay of socio-cultural, political and economic factors, economic factors have tended to mobilize these other grievances into full-scale conflict. Moreover, economic resources sustain and expand the scope and scale of conflict to increasingly devastating proportions.

There is broad consensus among donors, practitioners and policymakers that widespread, equitable and sustainable economic growth has the potential to mitigate the emergence and re-emergence of conflict and stabilize conflict-prone societies. However, the means of achieving sustainable and equitable economic growth in conflict-affected environments have been less clearly articulated. Conflict-affected environments often experience large inflows of highly-subsidized assistance early on in the post-conflict phase, which drop sharply as soon as the conflict has drifted from public and political attention. Too often, there are no systems or strategies in place to build on these initial subsidies to create lasting economic growth.

Much of the recent literature cites a lack of concrete, applicable tools, methodologies and guidelines to help relief and development practitioners design and implement interventions that build steadily towards sustainable economic growth, beginning in the transitional and immediate post-conflict phases. While the relief community has recently begun to conceptualize approaches to minimizing market distortions, its focus remains on the immediate survival and short-term livelihoods needs of conflict-affected communities. Meanwhile the economic development community has concentrated its efforts largely on macro-level policy and institutional development aimed at helping host governments and multi-national corporations to operate effectively in conflict-affected environments. Much of the work that has attempted to target the local private sector has emphasized local businesses as a medium for dialogue and conflict resolution, rather than focusing on how micro-, small- and medium-scale enterprises (MSMEs) can contribute to sustainable, broad-scale economic growth by participating in and driving the development of competitive industries.[2]

PROJECT PURPOSE

The purpose of the AMAP[3] *Value Chain Development for Conflict-Affected Environments* project is to fill this critical gap in the body of existing research and analysis by proposing a framework and set of recommendations for fostering sustainable economic growth in conflict-affected environments. The framework will provide a guide for identifying and sequencing interventions throughout the relief and development processes based on the specific context and dynamics of the conflict and post-conflict environment.

The stages of recovery in conflict-affected environments are rarely clearly defined or linear. Nevertheless, there is generally a period when relief activities are the priority for donors and implementing agencies, and a period when sustainable economic development is considered to be essential (see figure 1 below). The goal of this project is to facilitate the strategic incorporation of economic development (and specifically, value chain development) activities into the relief and reconstruction phase in order to reduce the economic drivers of conflict and to lay the groundwork for a more rapid transition to sustainable development.

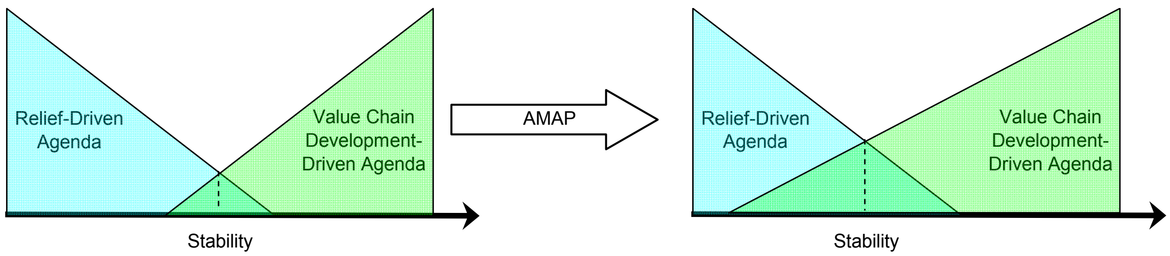
---

[1] Human Security Report 2005

[2] International Alert (2005b); Killick et al (2005); Gasser et al (2004); Lazarte-Hoyle (2003)

[3] Accelerated Microenterprise Advancement Project, see www.microLINKS.org

Figure 1: Accelerating the Transition from Relief to Development



This project comprises a few steps. Insights and conclusions are drawn from existing literature for this review; further, case studies of 12 economic development projects in conflict-affected environments will form the basis of a synthesis paper, commissioned by AMAP, from which recommendations will be set forth.[4] The project will:

- contribute to the conflict-sensitive analysis and design of interventions aimed at rebuilding markets through a value chain development approach;
- develop an adapted value chain approach as a means of contributing to the rebuilding of market systems and laying the foundations for competitive industries in conflict-affected environments; and
- propose practical strategies for accelerating the relief-to-development transition through the identification of interventions that support the immediate goals of relief operations while contributing to the development of competitive value chains. This in turn will result in increased security and stability

USAID'S VALUE CHAIN APPROACH

Throughout this literature review, the focus will be on value chain development as an effective instrument for sustainable economic development. USAID's value chain approach (summarized in Annex A) identifies the full range of factors that affect the performance of an industry, including the structure, relationships and dynamics that characterize it, and the potential for technological upgrades and behavioral shifts to increase its competitiveness.[5] The aim of the approach is to create incentives for value chain actors to change behavior to positively affect investment, learning and innovation, and to engage in strategic collaboration.[6]

A range of value chain development approaches and tools have been developed by donors and implementing agencies in the last several years, which have similar characteristics to USAID's, including the focus on tracing the process of value adding transactions as a product flows towards its final market, and on the governance structures and enabling environment issues that affect this process.[7] USAID's approach differs from many of these articulations of the value chain approach in its application throughout the entire project cycle and the depth of its analysis of value chain relationships and how they affect the flows of power, learning and benefits.

The structure of a value chain can be characterized in terms of five elements (see figure 2, right):

---

[4] See Annex B

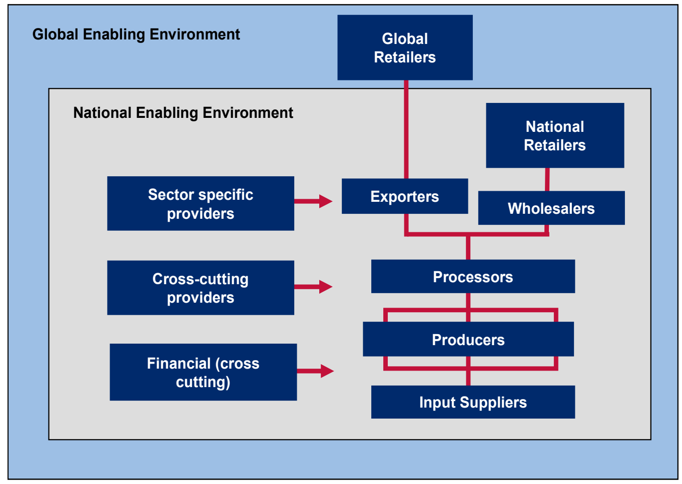
[5] Competitiveness is here defined as the ability of a firm or industry to develop and maintain an edge over market rivals through a combination of three strategies: producing and delivering goods and services more efficiently, differentiating products or services through quality standards and branding, and/or exploiting unmet market demand.

[6] http://www.microlinks.org/ev_en.php?ID=9652_201&ID2=DO_TOPIC

[7] For overviews of these approaches, see for example Roduner (2007) and Humphrey, Schmitz and Navas-Aleman (forthcoming).

1) End market opportunities at the local, national, regional and global levels—the value chain approach prioritizes this element because demand in end markets defines the characteristics of a successful product or service.
2) Business and enabling environment at the local, national and international levels—this includes legal and policy issues, macro-economic conditions, socio-cultural and political factors, public services and infrastructure (such as water, education, roads and electricity).
3) Vertical linkages between firms at different levels of the value chain—these are critical for moving a product or service to the end market and for transferring benefits, learning and embedded services between firms in the chain.
4) Horizontal linkages between firms at the same level of the value chain—these can reduce transaction costs, enable economies of scale, increase bargaining power, and facilitate the creation of industry standards and brands.
5) Supporting markets—these include financial services, cross-cutting services (e.g., business consulting, legal advice, telecommunications) and sector-specific services (e.g., irrigation equipment, design services for handicrafts).

Figure 2: Value Chain Structure



Firm owners create the dynamic elements of the value chain through the choices they make in response to the value chain structure. These dynamic elements include:

1) Upgrading—increasing competitiveness at the firm level through product development and improvements in production and marketing techniques or processes
2) Inter-firm cooperation—the extent to which firms work together to achieve increased industry competitiveness
3) Transfer of information and learning between firms—this is key to competitiveness since upgrading is dependent on knowledge of what the market requires and the potential returns on investments in upgrading
4) Power exercised by firms in their relationships with each other—this shapes the incentives that drive behavior and determines which and how much firms benefit from participation in an industry

USAID's value chain approach is highly relevant to conflict-affected environments, as will be demonstrated in this literature review.

STRUCTURE OF THE LITERATURE REVIEW

The literature review is the first stage in the *Value Chain Development for Conflict-Affected Environments* project. The objective is to explore the existing literature for lessons, tools and insights on the development and implementation of economic recovery and growth interventions—and particularly value chain development initiatives—in conflict-affected environments. The literature review addresses the causes, impacts and implications of conflict through the lens of economic growth, including examination of the constraints and opportunities created by conflict for each element of the value chain framework. This is followed by an analysis of the implications for the design and implementation of value-chain based interventions in conflict-affected environments, based on the various stages of the project cycle. Finally, preliminary conclusions will be drawn on the applicability of the value chain approach and its underlying principles to conflict-affected environments.

II. CAUSES OF CONFLICT AND IMPLICATIONS FOR VALUE CHAIN DEVELOPMENT

A lack of licit economic opportunities in the fragile post-conflict phase often translates into the re-emergence of violence. Countries caught in this so-called "poverty-conflict trap" been found to have a 44 percent chance of returning to conflict within the following 10 years.[8] Understanding the economic causes of conflict contributes to an understanding of the most appropriate options for recovery and development, thereby leading to improved design of interventions aimed at breaking the poverty-conflict trap.

There have been several debates over the past decade on the relative significance of the many causes of conflict—economic, social, political and cultural.[9] The literature explores how economic grievances and commercial agendas intertwine with social and political motivations to drive specific conflict situations; how the specific process by which these motivations intertwine to form conflict depends on a range of historical and current domestic, regional and international socio-political and institutional factors; and how this confluence of causes and triggers makes for constantly evolving conflict.[10] Research into the dynamics through which conflicts evolve has argued that conflict often emerges as non-economic motives (ethnic or cultural differences or political motivations) are mobilized, transformed or intensified by economic factors, including overall economic failure,[11] economic inequality (particularly between distinct ethno-linguistic, religious or social groups)[12] or access to illicit sources of finance.[13] This literature review aims to understand those causes of conflict that are likely to affect value chain development in post-conflict environments.

The literature on the economic drivers of conflict can be divided into two broad categories: i) research into the economic and structural characteristics of the country prior to the conflict, and ii) analysis of the economic motives of individuals or groups driving conflict.[14] Understanding both is critical to designing interventions capable of increasing wealth while undermining the drivers of conflict and creating incentives for peace.

Many of the traits found to be positively associated with civil conflict have implications for value chain development. Some of these, included in an influential body of research by the World Bank,[15] are:

---

[8] Collier et al (2003) p.83; On the 'Poverty-Conflict Trap' see Fitgerald (1998); Collier et al (2003); Goodhand (2001); Nafziger et al (eds)000); Hess and Blomberg (2001); Rice et al (2006)

[9] These debates are outside the scope of this document, but references include Berdal and Malone (2000); Nafziger et al (2000) (Vol. 1) et Collier and Hoeffler (2001); Sambanis (2001); de Soysa (2002); Elbadaw and Sambanis (2002); Collier and Hoeffler (2002); Reynal-Querol (2002); Ballantine and Sherman (2003); Kanbur (2007)

[10] See for example Collinson, S. (ed) (2003); Ballentine, K. and J. Sherman (eds) (2003); Le Billon, P. (2000a); Starr (2006); Humphreys; (2003); Malone and Nitzschke (2005)

[11] Nafziger et al (2000);

[12] Kanbur (2007); Cramer, C. (2001 and 2003)

[13] Collier & Hoeffler (2001), Malone and Nitzchke (2005); Collinson (2003); Winer, (2002)

[14] Cater (2003) divides the literature into approaches that focus on structural opportunities for conflict, which are largely 'state-centered' and those that focus on the dynamics of mobilization of conflict through economic and other forms of coercion, which are largely 'rebel-centric.'

[15] Collier and Hoeffler (1998; 2001); Collier (2000); Collier et al (2003)

- low levels of social capital, as indicated by low rates of male enrollment in secondary school—this reduces the pool of educated/skilled labor and creates a population prone to recruitment by combatants;

- strong Diaspora communities—these often contribute substantial financing for conflict activities as well as encouraging the most talented individuals and families to leave the country; and

- geographical environments conducive to strong rebel operations—these tend to limit regular communication and transport, which in turn contributes to co-opting large sections of the productive labor force and draining skill bases.[16]

All of these traits are likely to negatively affect social capital and thereby limit the scope of opportunities to develop and upgrade industries that rely on high levels of skill, knowledge and experience.

Other characteristics of pre-conflict economies such as low income growth, low per-capita income and natural resource dependence (proxied by primary commodity income)[17] have also been found to be highly correlated with the outbreak of conflict. Natural resource-based wealth can contribute to conflict in a number of ways: i) enabling predatory, rent-seeking resource management by ruling elites thereby compromising the institutional linkages and political bargaining that occurs between states and citizens when taxation serves as the primary resource base; ii) fueling grievances over unequal distribution of wealth derived from natural resources; iii) causing economic instability due to economic distortions related to dependence on primary exports; iv) directly financing conflict activities; and v) undermining the incentives to make or maintain peace.[18] Simultaneously, reliance on resource wealth can emerge or be reinforced as the risks and transaction costs associated with other sectors such as manufacturing and agriculture increase as a result of conflict.[19] While there has been substantial debate over the causal relationship between natural resource dependence and conflict,[20] there is consensus that natural resource wealth generally exists in states characterized by vast economic inequality, high levels of poverty among the general population, and predatory control over resources and value chains, all of which contribute to increased risk of conflict. Consequently resource-dependent countries present a particular challenge to peace building and poverty reduction initiatives.[21]

SHADOW GLOBALIZATION

The growing global domination of market-driven free trade over state-led development has opened new opportunities for the self-financing of combatants in intra-state conflicts. The capture and diversion of natural resources or other sources of wealth into war revenues is facilitated through poorly regulated global trade and investment markets, and often overlapping business, criminal and Diaspora networks. This phenomenon—labeled "*shadow globalization*"—relates particularly to illicit goods which are in high demand in developed nations, and therefore drive highly flexible commodity chains capable of navigating around the many risks involved in these industries.

See Ballentine and Sherman (2003), Ballentine and Nitzschke (2005), Lock (2005)

---

[16] Collier and Hoeffler (2001); Strength of rebel military operations is proxied by factors conducive to strong rebel operations such as dispersed population and mountainous terrain.

[17] Collier and Hoeffler (1998; 2001); Collier (2000)

[18] Humphreys (2005); Moore, M. (1998) and (2001) cited in DiJohn (2002).

[19] DiJohn (2002)

[20] DiJohn (2002) argues that the correlation between resource wealth and conflict can be attributed to a lack of legitimacy of the ruling regime; Ross (2002) and Fearon (2005) analyze the impact of different types of resource wealth in relation to different types of conflict.

[21] for discussion of policy options for intervening in natural resource based conflict situations see Ballentine and Nitzschke (eds) (2005)

Although the literature positing that economic motives rather than non-economic grievances constitute the main causes of conflict needs to be understood in the broad socio-political context, this literature has identified several economic factors driving and contributing to conflict that are relevant to value chain development. A primary economic motive is the response of combatants to the economic rationality of engaging in conflict rather than pursuing less profitable activities in the licit economy.[22] Such combatants pose a constraint to developing competitive licit value chains and must be presented with strong incentives to disengage from direct and indirect conflict activities. Nonetheless, such combatants also present an opportunity as a potential labor force: if engaged in strong, competitive, profitable industries, combatants can drive widespread economic recovery and growth and reduce the likelihood of a re-emergence of conflict. Recent research suggests that youth who are faced with economic incentives to engage in conflict often turn down these opportunities in favor of other, less profitable or even mere coping options,[23] indicating that opportunities in licit industries with relatively attractive benefits would be successful in diverting labor from combat activities.

The other central economic motive, according to the literature, relates to power dynamics, predatory behavior and mistrust, which have significant implications for value chain development. Predatory dynamics and mistrust can occur among value chain actors directly, or can be external to the chain but influence the enabling environment in which the chain operates. Vertical relations characterized by inequality in benefits, power and opportunity can instigate violent conflict, as can the absence of horizontal linkages—particularly a lack of ties between unlike groups in a multicultural or multiethnic society. Such ties rely on concrete mutual benefits to thrive in the midst of uncertainty or shock.[24] The breakdown of trust often accompanies shifts to different market or political systems which undermine traditional structures, causing increased vulnerability both to the emergence and effects of conflict. Pervasive lack of trust and predatory power dynamics are often chronic in countries characterized by extreme economic inequality, particularly where historically conditioned social relations reflect this inequality. [25] Further, lack of social trust,[26] coupled with weak institutions to manage conflict, contributes to more severe impact from external shocks, rendering communities more vulnerable.[27]

The literature also discusses the economic strategies used by elites (those holding social and political power) to sustain power and the situations in which elites find war to be more profitable than peace.[28] Both have implications for value chain development in conflict-affected environments since in such environments elites often dominate value chains through predatory power dynamics. When elites are defined by ethnicity, kinship or religious affiliation, the significance of economic inequality as a driver of conflict increases. Economic growth initiatives that have left out or marginalized distinct groups of the population have strengthened this conflict trigger, as has been witnessed in India, Mexico and China.[29] By developing strong national industries in a way that integrates marginalized, conflict-affected and conflict-prone populations through mechanisms that ensure equitable benefit distribution, these motives for conflict can be transformed into incentives for sustainable economic growth.

The causes of conflict can have significant implications for relief and economic recovery efforts as mistrust, corruption and predatory control of resources seep into the management and implementation of interventions. Much of the criticism aimed at relief activities over the past two decades has focused on interventions that inadvertently

---

[22] Collier and Hoeffler (1998; 2001); Collier (2000); Collier et al (2003)

[23] Rajendran et al (2006)

[24] Colletta and Cullen (2000) pp.15-16.

[25] Rodrik (1997 & 1999)

[26] Social trust refers to "generalized interpersonal trust" as distinct from i) confidence in political and public institutions, and ii) trust embedded in personal relations.

[27] ibid

[28] Berdal, M. and Malone, D. (eds) (2000);

[29] Kanbur (2007)

distort local markets and corrupt political systems. Too often the management of relief activities has been corrupted or controlled by predatory local actors.[30] Therefore a comprehensive analysis of the role of conflicting actors is critical to informing the design and delivery of relief and recovery assistance to ensure that drivers of conflict do not inadvertently gain power as a result of this assistance.

In summary, the implications of this debate for post-conflict economic growth are i) that the availability of economic opportunities must be addressed in order to stabilize communities and to provide incentives for demobilization and viable alternatives to conflict-reinforcing illicit economic activities; and ii) that the specific social, cultural and political context of the conflict must be understood and incorporated into the design of interventions to strengthen economic opportunities and avoid fueling conflict-reinforcing dynamics.

[30] See for example Duffield 1994a and 1994b.

III. ECONOMIC IMPACTS OF CONFLICT

While the literature reviewed above has helped to identify poverty alleviation and economic growth as key to reducing the emergence and re-emergence of conflict, it is the specific economic consequences of conflict that inform the design of effective strategies for post-conflict economic growth.

A. GENERAL ECONOMIC CONSEQUENCES OF CONFLICT

The overarching effects of conflict on economies are undisputed. Conflict translates into a significant drop in economic growth rates. A civil war with the average 7-year duration, for example, can be expected to lead to a 15 percent drop in the average household income and a 30 percent increase in the incidence of absolute poverty.[31] The conflict in Bosnia and Herzegovina incurred damages of over $50 billion and shrunk GDP by over two thirds;[32] the Guatemalan civil war resulted in economic losses of $10 billion between 1980 and 1989;[33] and the cost of civil conflict in Sri Lanka since 1983 has been estimated at $16 billion, contributing to FDI[34] levels of less than 1.3 percent of GDP.[35] Infrastructure—an important determinant of economic growth—is severely compromised through destruction and looting, and investment in economic activities is hindered by capital flight. Foreign-held private capital stocks have been conservatively estimated to rise from 9 to 20 percent during conflict, and up to 26 percent during the first decade of peace.[36] Capital flight as a result of civil war in Lebanon between 1975 and 1990 amounted to $40 billion dollars[37] and during the 34-day war from July-August of 2006 totaled $2.5 billion.[38] Capital flight is not only a direct consequence of conflict, but has also been found to function as an indicator of future conflict—supporting the conflict trap hypothesis.[39]

In conflict-affected environments, productive capacity is weakened by the destruction or inaccessibility of production and processing facilities and agricultural land and a lack of access to technological inputs and resources. In addition, critical skills are lost and the capacity of human capital is diminished through the death, disability, trauma, displacement and migration of skilled workers, who are more easily able to settle abroad. The diversion of state resources away from investment in basic services such as education and health renders vast portions of the population less able to contribute to productive economic activities, and in some cases residual discrimination against certain ethnic or religious groups translates into a failure to harness potential human capital. Household and business assets are often destroyed, and the lack of economic opportunities prevents individuals and firms from reinvesting in productive assets. Failures in the enabling environment and supporting markets, coupled with weakened horizontal and vertical linkages, limit the ability of firms to invest in upgrading. All of these factors contribute to reduced investment and shifts to subsistence activities that entail less risk than trying to capture higher-value markets. For example, the share of the Ugandan economy engaged in subsistence activities grew from 20 to 36 percent of GDP as

---

[31] Collier (1999); Collier et al (2003)
[32] Divjak (2005).
[33] cited in Gerson (2000)
[34] Foreign Direct Investment refers to investment made to acquire lasting interest in enterprises operating outside of the economy of the investor (www.unctad.org)
[35] Goodhand (2001); see also Grobar and Gnanaselvam (1993) on the economic effects of the Sri Lankan civil war
[36] Collier et al (2003) *Breaking the Conflict Trap* p. 17-21.
[37] Picard (2005)
[38] Lebanese Republic (2007) "Recovery, Reconstruction and Reform" International Conference for Support to Lebanon: www.pcm.gov.lb/NR/rdonlyres/4D817E6A-39C8-4F26-AF27-9C8C830E29F5/0/paris3En.doc;
[39] Fielding (2004)

a result of conflict.[40] Often the only industries in which conflict-affected individuals and firms feel confident enough to expand investment are those illicit industries with guaranteed markets, generally characterized by high levels of vertical integration and predatory power dynamics.[41]

As war economies emerge,[42] the value chains with the highest potential for competitiveness are often captured by vertically integrated firms owned by those in power, and the resulting revenues are used to sustain and drive the conflict (see text box, right). Although the more visible examples of this phenomenon involve high-value natural resource wealth such as oil, diamonds, other minerals and timber—which are often traded through large contracts between combatant groups and multinational companies—the same phenomenon has emerged with lower-value commodities such as fruits and nuts in Afghanistan and Casamance.[43] Lower-value industries have also been controlled by paramilitary groups capable of co-opting multinational companies, as with the banana industry in Colombia.[44] In each of these cases, the lower-value, licit value chains have been appropriate in parallel with control over high value illicit value chains (opium, cannabis and coca respectively) taking advantages of the intersections between the licit and illicit channels.

GENERAL CHARACTERISTICS OF WAR ECONOMIES

- Destruction or circumvention of the formal economy and growth of informal and black markets, effectively blurring the lines between formal, informal and criminal sector activities.
- Pillage, predation, extortion and deliberate violence against civilians used by combatants to acquire control over lucrative assets, capture trade networks and Diaspora remittances, and exploit labor.
- High levels of decentralization and privatization, both in the means of coercion and the means of production and exchange.
- Combatants increasingly rely on the licit or illicit trade in lucrative natural resources, where such assets are available.
- Reliance on cross-border trade networks, regional kin and ethnic groups, arms traffickers and mercenaries, as well as legally operating commercial entities, each of which may have a vested interest in the continuation of conflict and instability.

Source: Ballentine and Nitzschke (2006)

Meanwhile, "shadow economies" emerge for the purpose of making profits on the margins of conflict. These economies include illicit activities conducted to finance conflict operations, such as poppy or coca production, natural resource extraction, exploitative financial services and other forms of profiteering. As the more vulnerable conflict-affected communities lose all or most of their assets, and traditional coping mechanisms deteriorate, individuals resort to functioning within the "coping economy" or the "survival economy." The coping economy consists of adapted or diversified livelihood activities that mitigate the economic impact of conflict and preserve asset bases. The survival economy comprises last resort, low-risk economic activities employed to slow the deterioration of assets or to enable survival through asset erosion.[45]

Individuals and firms often transition among the different economies during the course of a conflict. In addition, actors in the shadow economy are commonly engaged in both licit and illicit value chains, often serving the same

---

[40] Collier et al (2003)

[41] Collinson (ed) (2003)

[42] War economies finance conflict through a range of war-related income streams including violently enforced control of assets and resources, engagement in or control over black markets and informal markets and legal and illegal trading networks. (Fischer and Schmelze 2005)

[43] See Collinson (2003)

[44] Nelson (2007)

[45] The categorization of war, shadow, coping and survival economies is taken from Le Billon (2000)

function in both. This is particularly relevant in the case of traders engaged with more than one commodity, and supporting services such as transport or financial services.[46] For example, money changers and transfer systems in Afghanistan are simultaneously used by warlords, conflict profiteers, value chain actors and humanitarian organizations.[47] Similarly, communities or individuals engaged in subsistence agriculture as part of the coping economy may diversify their livelihood strategies by participating in illicit activities such as unregulated mining, smuggling or poppy cultivation.[48]

REGIONAL IMPACTS OF CONFLICT

Conflict often takes on regional dimensions, as has been the case in Central Africa, the Balkans, the Caucasus and Central Asia.[49] Spillovers of economic effects often seriously impact neighboring countries' markets, straining their regulatory environment, infrastructure and employment markets, and translating into significant collateral damage in terms of per capita growth, particularly in the short-term.[50] This in turn constrains regional market demand and further affects possibilities for growth in the conflict-affected country. Regional politics often translate into control of key value chains in neighboring countries—for example, Rwandan domination of the coltan industry in northeast Congo[51] and Pakistani control of key functions in the Afghan grains and carpets value chains.[52]

FACTORS AFFECTING THE SEVERITY OF IMPACT

Conflict affects various groups in different ways depending on the interplay of a range of factors, including the location of the conflict, the nature and affiliations of prevailing security regimes, the strength of local governance, the nature and capacity of social networks, the control of warring parties over economic resources, and access of different groups to infrastructure, basic services and markets.[53]

The economic consequences of conflict have been found to be worse in countries characterized by the following: low pre-war income levels, a high degree of socio-economic inequality,[54] high levels of unregulated trade in global markets,[55] a heavy dependence on imports for essential commodities,[56] limited flexibility in the economy,[57] and geographic isolation (particularly landlocked countries).[58] High levels of ethnic fractionalization have been found to worsen economic consequences,[59] although so has ethnic homogeneity in other studies.[60] While the severity and geographical scope of the conflict and the extent of capital flight during the conflict are logically found to translate

---

[46] Goodhand (2007) forthcoming research, cited in personal communication

[47] Goodhand et al (2003)

[48] Collinson (2003); Goodhand et al (2003)

[49] Pugh et al (2004); Rubin et al (2001); Collier et al (2003)

[50] Murdoch and Sandler (2002) prove this empirically and show that this damage is due to country-specific influences such as religious fractionalization, population dispersion, and being located on the African continent—rather than to migration, human capital or investment factors. They also find that the intensity of the conflict is correlated to the extent of damage in neighboring countries. Case studies on the regional aspects of conflict and economic trends include Pickup (2003) on Afghanistan and Central Asia, Pourtier (2003) on Central Africa, and International Alert (2004) on the South Caucasus.

[51] Jackson (2003)

[52] Goodhand et al (2003)

[53] Collinson (2003); Le Billon (2000a); Ballentine & Nitzschke 2006

[54] Rodrik (1997 & 1999); Stewart and Fitzgerald (2000)

[55] Fitzgerald (1998)

[56] Collier (1999); Stewart and Fitzgerald (eds) (2000)

[57] Stewart and Fitzgerald (eds) (2000)

[58] Stewart and Fitzgerald (eds) (2000); Faye, M. et al (2004) discuss four levels on which land-locked countries tend to be dependent on their neighbors: infrastructure, sound cross-border political relations, peace and stability, and administrative practices; see also Bakhache et al (2007) on the Central African Republic

[59] Goodhand (2001a)

[60] Lacina (2006)

into worse economic consequences,[61] a positive correlation has been found between the length of civil wars and the speed of recovery.[62]

Conflict funded through taxation translates into immediate economic consequences, while conflict funded through borrowing translates into extended economic consequences.[63] Long-term socio-economic impact also depends on the government's ability to maintain basic services and livelihood options, the nature of military tactics (the use of landmines, chemical weapons, etc.)[64] and the extent to which the international community responds with assistance and investment.[65]

INDUSTRIES' IMPACT ON CONFLICT

The effects of any industry on conflict will be context-specific, although some generalizations can be made:

- Agriculture and forestry can be a source of conflict as a result of land tenure issues, the inappropriate use of technology, distorting pricing structures and environmental damage.
- Extractive sectors (oil, gas, timber, mining) have a strong potential for creating conflict over the control of and access to resources, unfair distribution of revenues and poor management of security arrangements and community relations (see text box).
- The financial services sector has the potential to exacerbate conflict by funding "war economies," providing safe havens for looted state assets or facilitating (intentionally or unintentionally) money laundering and arms deals.[66]

NATURAL RESOURCES AS SOURCES OF FUNDING FOR CONFLICT

The potential role for natural resources as sources of funding to sustain conflict depends on the following:

- Lootablility—the ease with which a resource can be appropriated by individuals or small groups of unskilled workers. Lootable resources (alluvial gemstones, drugs) tend to prolong non-separatist conflicts and cause more complex civil wars characterized by fragmentation and shifting alliances among armed groups. Unlootable resources (oil, natural gas, deep-shaft mines) are more likely to cause or exacerbate separatist conflicts.
- Obstructability—the ease with which transportation of the resource can be blocked. Where unlootable resources are obstructable they create infinite opportunities as a source of finance for rebel groups, causing high levels of violence (e.g., oil in Sudan). Where resources are unlootable and unobstructable conflicts tend to be long-running with minimal violence due to the lack of access to financing by rebel groups (e.g., natural gas in Aceh and copper and gold in West Papua).

See Ross (2002)

---

61 Gyimah-Brempong and Corley (2004) model the severity of civil war in relation to economic impact; Imai and Weinstein (2000) model the intensity and scope in relation to economic impact; Murdoch and Sandler (2002) focus on the scope of conflict particularly in relation to regional spillover effects. On the significance of the extent of capital flight in determining the economic consequences of conflict see Collier (1999) and Imai and Weinstein (2000)

62 Collier (1999)

63 Luckham (2001)

64 Stewart and Fitzgerald (2000)

65 Kang and Meernik (2005); on the role of foreign investment see also Nelson (2000) and Gerson (2000)

66 Nelson (2000). "Footprint" refers to the conflict impact and "risk-responsibility" refers to the combination of factors to be considered by the private sector: risk of reinforcing conflict and responsibility for trying to mitigate conflict

B. IMPACTS ON AND OPPORTUNITIES FOR VALUE CHAIN DEVELOPMENT

USAID's value chain approach[67] adds to an understanding of the economic impacts of conflict by providing a framework for analyzing industry-level structures and dynamics in conflict-affected environments. By focusing analysis on the various elements of the value chain, key economic activities, the impact of conflict on them, and their potential in facilitating rapid economic recovery and growth can be identified. This analysis also allows us to investigate the intersection of economic activity with key points in the emergence, mitigation and transformation of conflict, informing the design of economic development projects to maximize their contribution to the peace-building process. USAID's value chain analysis is unique in the depth and scope of its focus on the relationships between various actors, and this focus has the potential to affect incentive systems to transform the war economy into a peace economy.[68]

The following section draws from the literature to analyze constraints to and opportunities for economic recovery and growth in post-conflict environments. The analysis is structured according to the elements of USAID's value chain framework.

END MARKETS

This element of the value chain framework includes the structure and dynamic trends of all domestic, regional and global markets that the value chain has served—both at present and pre-conflict—and those that appear to be potential markets. Considerations include the requirements of these end markets, current and prospective competitors and the potential to compete for market share in terms of efficiency, product or operational differentiation, and untapped markets or demand.

CONSTRAINTS

Competition. Depending on the severity and length of the conflict, most or all pre-existing markets will have been disrupted and industry competitiveness lost. In the case of protracted conflict, it may be difficult to help firms within industries that were once regionally or globally competitive to appreciate the fact that they need to substantially upgrade in order to become competitive once more. Even harder to accept for stakeholders in once-prestigious industries is the fact that sometimes countries and regions no longer have the comparative advantage that will allow them to regain their market dominance. For example, both Eritrea and Zimbabwe were once leaders in Africa's agricultural production and marketing, and both have lost this status as a result of conflict and political instability. While many Zimbabwean farmers and entrepreneurs have coped by relocating to other more stable countries within the region, both countries have failed to create national strategies that accept and respond to their loss of market dominance, pushing away foreign investors and rendering foreign aid ineffective.[69] For example, the Eritrean Ministry of Agriculture insisted that a recent agricultural project focus on developing the banana industry, a thriving and competitive industry in the 1960s that now, with decades of neglect, has no possibility of competing against the advanced institutional and technical capacity of the Latin American industry.[70]

---

[67] See Annex 1 for a summary of this approach.

[68] Other approaches to value chain or commodity chain analysis informed by political economy analysis have emphasized relationships among actors in the context of power dynamics, governance structures and economic transactions. See for example Collinson (2003)

[69] Zimbabwe's failure to acknowledge current realities in its economic planning has contributed to the collapse of agriculture and manufacturing. The current National Economic Development Priority Program, aimed at restoring investor confidence and poverty alleviation, identified mining as the only industry for targeted development.

[70] See USAID Rural Enterprise Investment Partnership Project Reports 2003-2005. On Eritrea's prospects for regaining competitiveness in key industries see Cotton et al (2002).

Competition is also created by cheap imports and the distribution of relief supplies. Food aid drives down local food prices by flooding supply and by decreasing demand for locally-produced food by recipients. For example, the shift in the West African Sahel from consumption of indigenous coarse grains like millet and sorghum to wheat has been attributed to food aid deliveries of grains. Unprecedented changes in pastoralists' diets in the Horn of Africa from animal products to maize have similarly been attributed to food aid deliveries.[71] While donor-required analyses are meant to ensure that monetized food aid commodities will not result in substantial disincentives in domestic agriculture or marketing, these are not always thoroughly or objectively undertaken.[72]

Reduced demand. Conflict-affected domestic consumers are often concerned only with price rather than quality, eliminating the imperative for wholesalers and retailers to differentiate or grade produce or ensure food safety standards. This in turn contributes to the weakening of systems necessary to access higher-value markets. The lack of grades and standards means that prices are often negotiated based on appearance, requiring individual inspection which increases transaction costs while presenting an opportunity for traders to engage in opportunistic behavior.[73]

The shift from daytime markets to evening markets has been observed as a result of economic decline due to conflict, which forces people to spend the entire day attempting to earn livelihoods, leaving no time for market activity and little money available for purchases.[74] In such markets, average quantities of food items sold shrink drastically as a result of constricted purchasing power. Other factors affecting demand include forced migration and displacement which shift consumers away from their traditional markets and leave market channels ruptured.

In other cases, economic sanctions, consumer aversion or boycotts of goods from countries perceived as supporting or engaging in violent conflict eliminate high-value markets abroad. For example Turkish and Azerbaijani embargoes restrict Armenian access to the markets of Anatolia and Azerbaijan, which make up 44 percent of the regional market, as well as increasing access costs to markets in northeast Iran by 38 percent.[75] Meanwhile, the Armenian blockade on the Autonomous Republic of Nakhchevan affects three borders of the country as well as air connections, gas and electricity supplies, devastating the traditional and once successful viticulture industry.[76] Consumer aversion to or boycotts of goods depend on the perception of the conflict: the type and legitimacy of the regime, whether profits are seen to be fueling conflict or supporting conflict-affected populations, whether profits are perceived to be channeled to marginalized populations, and the extent of linkages to Diaspora markets. Often, these sanctions have been found to be misguided, further constraining the economic opportunities of marginalized populations. Recognition of this fact has resulted in pressure for "smart sanctions" based on an understanding of the political economy of targeted industries.[77]

OPPORTUNITIES

Relief markets. Economic opportunities may arise from conflict when displacement and migration shift populations and create new markets for products and services, or where international peacekeepers constitute a captive, well-resourced consumer base. Peacekeepers or other conflict-related expatriate communities also serve as a source of valuable market information, helping firms to identify the characteristics demanded in higher-value foreign markets and the upgrading needed to meet this demand. The Horn of Africa is an example of a region where new markets created by relief operations and international forces have combined to create significant new market opportunities,

---

[71] Barrett (2006). An additional consequence of grains as an inappropriate relief commodity is the significant increase in production and consumption of home-brewed alcohol brewed from these relief grain commodities (Barrett and Maxwell (2005) cited in Barrett (2006).

[72] Ibid.

[73] DAI (2005)

[74] Jackson (2003)

[75] International Alert (2004)

[76] ibid.

[77] Collinson (2003) p.15; Ballentine and Nitzschke (2005)

particularly for processed and ready-made food items.[78] Skyrocketing prices for basic food items and demand for higher-value products (not to mention housing, qualified staff and a broad range of services) in war-affected countries with heavy humanitarian aid and UN presence also point to this phenomenon.[79] Examples of goods produced in response to demand by aid workers range from specialty food items to western-style furniture such as double beds and dining tables, and handicrafts.[80]

Several relief organizations have recently piloted initiatives to create a supply of items needed for their own relief operations, thereby becoming a self-contained vehicle for supply and demand. Although admittedly unsustainable, these initiatives develop local skills bases and introduce new product and service markets that can be used as foundations for the development of more sustainable industries. For example, CHF has piloted a program engaging women to make grass mats which are then used in the construction of shelters used in refugee camps; CHF has also trained these same women in basket weaving to cater to handicrafts markets.[81] Other examples include training local blacksmiths to craft fuel-efficient stoves used in refugee camps as well as agricultural tools; supporting local carpenters to supply school benches and desks; and supporting local tailors to supply school uniforms. However, these types of interventions generally cater to the limited needs of relief operations and have little potential to be competitive outside of the short-term relief economy.

The construction industry generally experiences increased demand as a result of relief markets. In Darfur, for example, several relief organizations have made it a priority to train construction workers from local communities. The Norwegian Refugee Council relies almost solely on hiring crews for construction projects directly from the communities they have trained. However, future employment prospects depend on the construction styles in which individuals are trained, and therefore whether or not workers are likely to find work in urban areas or will be forced to return to their villages. CHF International has taken a more holistic approach to the sector, stimulating demand through access to credit for housing, while facilitating advocacy for an improved enabling environment for reconstruction and recovery activities. CHF has found that emergency housing initiatives can contribute positively to sustainable construction value chains through both backward and forward linkages. Backward linkages include increased incomes as a result of construction, increased economic activity stimulated by demand for materials used in shelter construction, and capacity for increased growth resulting from increased building. Forward linkages include increased outputs of textiles, furniture and household fixtures, the stimulation of service industries, the development of training for construction skills, the use of shelter as a rent-saving mechanism, increased productivity of workers and the potential for home-based enterprise activities.[82]

International markets. Private sector companies in neighboring countries often invest in value chains originating in the conflict-affected country in order to meet regional demand. For example, South African supermarket chains are investing in supermarkets and outgrower schemes throughout Southern Africa, including post-conflict Angola and Mozambique.[83]

Global end markets are rarely immediately relevant to post-conflict economies, although exceptions exist. One way in which global end markets present an opportunity is through beneficial trade agreements, which may be used as

---

[78] ACDI/VOCA (2006) *Pastoralist Livelihoods Initiative: Livestock Value Chain Analysis;* ACDI/VOCA (2003) *Rural Enterprise Investment Partnership: Horticulture Subsector Analysis*

[79] Castillo (2003)

[80] Personal communications with relief workers, primarily in Darfur.

[81] http://www.chfhq.org/section/worldwide_programs/programs/africa/sudan/west_sudan_darfur

[82] Sheppard and Hill (2005)

[83] See MSU's USAID-funded Partnership for Food Industry Development in Southern Africa: http://www.pfid.msu.edu/southerna-background.php. See also Shoprite's web site: http://www.shoprite.co.za/default.asp?pageID=18952031. For an analysis of the constraints facing smallholder farmers to participate in these market channels see Weatherspoon, D. and T. Reardon (2003) "The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor" *Development Policy Review* 21:3

inducements to negotiate or maintain peace agreements. These include preferential trade quotas with major markets such as the U.S. and EU bestowed in exchange for assurances of peace, such as the trade agreements offered to both Egypt and Jordan in return for economic cooperation with Israel;[84] as well as agreements on regional trade among countries involved in conflict, with international players facilitating the negotiation and providing incentives (e.g., the trade agreement between India and Bangladesh). These mechanisms are complex and have been shown in some cases to have limited results because of the inability of conflict-affected countries to maintain quality control standards and comply with market preferences. Nevertheless, if carefully managed, they present a critical window of opportunity for gaining entry into otherwise inaccessible high-value markets.

The marketing of some products may emphasize the experience of conflict and current living conditions of the producers. The success of Rwandan coffee in the past decade illustrates this phenomenon. The Rwandan coffee industry's official web site prominently features a section on "Rebuilding and Reconciliation," which refers to the country's recent genocide, and indicates that the development of the coffee industry is bringing "hope for a better future."[85] Such marketing has helped Rwandan coffee producers to benefit even as global coffee markets have constricted over the last few years.[86] Additionally, the industry has become a force for economic integration between Hutus and Tutsis through cross-employment and collaboration in joint coffee cooperatives, contributing to social cohesion and minimizing the risks of a return to conflict.[87]

Demand for specific products from conflict-affected regions can create end market-driven opportunities which are divorced from ideological or humanitarian concerns. In some cases national pride as well as international recognition remains attached to specific industries or products, making local stakeholders eager and willing to commit to revitalizing them. An example of this is the nut-producing tradition in Afghanistan, which combined with demand for the specific *germplasms* produced there, result in a high potential for competitiveness despite the disastrous effects of war.[88]

Over time, Diaspora communities can constitute or stimulate significant demand for products from their home country, as well as provide a source of investment financing. This is particularly true for traditional products such as niche foods, textiles or handicrafts. The internet provides an easy and inexpensive medium for transferring market information and the foreign exchange necessary to engage in upgrading. For example, the Turkish-Armenian Business Development Council has recognized this potential and is mobilizing the Armenian Diaspora to use its extensive business expertise and worldwide connections to develop new commercial opportunities for communities on both sides of the Turkish-Armenian border.[89]

BUSINESS ENABLING ENVIRONMENT

The business enabling environment refers to policies, conditions, norms and infrastructure that limit or facilitate an industry's capacity to meet and expand end-market demand. Aspects of the enabling environment include trade agreements, regulations concerning quality standards, national policy reforms, local economic development policies, and legal and regulatory enforcement capacity. The business enabling environment at the local, national and international levels includes public infrastructure and services, such as roads, electricity, health, education and housing

[84] In some cases these agreements, offered as inducements during peace negotiations, subsequently fail to obtain political or bureaucratic approval—as with the stagnated US-Colombia Free Trade Agreement negotiated in February 2006 which has not been approved by the U.S. Congress.

[85] http://www.coffeerwanda.com/coffee.html

[86] Dougherty, C. (2004) "Rwanda Savors the Rewards of Coffee" *The New York Times* July 27, 2004.

[87] McLaughlin (2006); Fraser, L. (2006)

[88] Castillo (2003)

[89] Gultekin (2004)

availability. Full consideration of the enabling environment must include not only the laws and regulations that affect business, but also the way in which those laws and regulations are implemented. The underlying bias of institutions matter: whether they are positive or negative towards private sector development. Another important aspect of the enabling environment in conflict-affected environments concerns customs, traditional practices and expectations, which often differ by location or ethnicity and may have been radically altered as a result of the conflict.

CONSTRAINTS

Government capacity. Weak or missing government institutions and low levels of resources and human capacity often translate into a lack of effective policies in support of local business development. Excessive, unwieldy and often corrupt licensing and control requirements likewise limit business competitiveness. A weak, inappropriate or nontransparent policy environment undermines investor confidence, deterring the capital infusions necessary to kick-start post-conflict economies.

With budgets drained on military spending and weak institutional capacity, governments are often unable to provide conflict-affected communities with basic services—including basic infrastructure, health care and education—reducing local ability to engage productively in emerging economic activities. Protracted conflict and rebel activity that relies on the conscription of child soldiers contribute to the problem of entire generations reaching adulthood with no employable or subsistence production skills. Often patronage becomes entrenched as the means of access to state resources such as education.

Other key services such as certifying grades and standards or insuring warehouse receipts are often non-existent. Centralized regulatory, quality and phytosanitary control institutions often cease to function, eliminating the possibility of accessing many export markets and resulting in lower product prices. Local and national institutions are often de-capitalized and have lost both the infrastructure and human capital to fulfill necessary functions. Moreover, new skill sets are often required in a post-conflict environment, whether to support reform and modernization of the existing legal and regulatory framework, or to develop more collaborative frameworks that are an essential part of post-conflict peacemaking. To prevent future conflict, government functions will need to be more inclusive and open, and this often requires support in filling non-traditional roles.

In instances where conflict is driven or fed by struggles to control valuable and lootable resources, local governments may be unable—or simply lack the incentive—to sustain regulations and policies designed to protect commerce. In Afghanistan, for example, prior to the most recent U.S.-led war, Rubin (2003) noted that "only the drug, transit and gem trades are worth taxing. The rest of the economy is hardly productive enough to recover the cost of governing it," contributing to a scenario where the public agenda is dominated by corrupted, predatory resource domination rather than a development agenda or public service provision. Not unsurprisingly in such an environment, initiatives by the local private sector to mobilize around advocacy for enabling environment reform (particularly to fight corruption and kick-start reconstruction) have had little if any impact.[90]

National capacity to participate in post-conflict recovery planning and management by establishing a supportive enabling environment is often correlated to the type of conflict experienced. In countries where a well-established government or opposition group has committed itself to peace and ensuring stability and security in the country (often the case where conflict has taken place in only part of the country), the national authorities are likely to have the capacity to engage fully in planning in the short to medium term. At the other end of the spectrum, in cases where previous governments have been ousted and new governments are still being formed, or where the entire state

[90] Giustozzi (2005)

apparatus has eroded over the course of protracted conflict, the new or transitional government is often too absorbed in maintaining fragile peace to engage in planning (see Table 1 below).[91]

Table 1. Type of Conflict and Enabling Capacity

Characteristics	Type A: Strong National Capacities and Relative Stability	Type B: Weak National Capacities and High Instability
Conflict type	• Conflict isolated to regions of the country • Sub-regional war	• Protracted conflict • Complex political emergency • External occupation
Government	• In place • Internationally recognized • Policy and implementing capacity	• Failing state • Non-existent or nascent • Internationally not recognized
Other conflict parties	• One major opposition group	• Multiple warring factions • International occupying forces
Conflict resolution	• Truce existing and observed by the conflict parties • Increasing stability	• Unstable truce • Low-intensity or regional violence • High instability
International Peacekeeping	• UN, OSCE, regional peacekeeping forces may be installed	• Occupying forces or NATO peacekeepers may be present
Examples	• Sri Lanka	• Afghanistan • Liberia

Source: UNDG/UNDP/World Bank (2006)

Decreased trust in government institutions and increased antagonism towards the state is a common consequence of conflict, particularly when i) resources have been diverted away from basic services, ii) drastic changes to the economy are undertaken (e.g., changes in property ownership), or iii) a regime remains in power that is perceived to be responsible for driving or maintaining the conflict or penetrating too deeply into communal affairs. Such situations contribute to the inability of state institutions to command long-term loyalties, with serious implications for social capital (see text box below).[92]

Transparency should be a key point of focus in developing a policy reform program. First, lack of transparency provides fertile ground for corruption, whereas corruption often cannot stand up to open scrutiny. Second, effective advocacy is much more difficult in a non-transparent environment where rules can change in arbitrary and punitive manners.[93]

---

[91] UNDG, UNDP, World Bank (2006)

[92] Colletta and Cullen (2000); Boubacar-Sid et al (2007)

[93] Personal communication with Scott Kleinberg, USAID

Value chain governance. Value chain governance refers to the power structure of an industry: which actors in the industry make the decisions, define the terms and conditions of transactions, and monitor compliance. Hubert Schmitz (2004) distinguishes among four types of governance structures in value chains:

- *Market-based:* Enterprises deal with each other in arms-length transactions.
- *Balanced network:* Enterprises cooperate and have complementary competences.
- *Captive network:* The lead firm sets the parameters under which others in the chain operate; the relationship is quasi-hierarchical.
- *Hierarchy:* Enterprises are vertically integrated; the parent company controls its subsidiaries.

SOCIAL CAPITAL

Social capital consists of "the features of social organization, such as networks, norms and trust, that facilitate coordination and cooperation for mutual benefit" (Putnam 1993)

Two aspects of social capital, according to the literature, relate to the strength of the enabling environment:

- *Organizational integrity* encompasses state institutions and their effectiveness and ability to function, as well as the legal environment and social norms.
- *Synergy of state-community interactions* refers to the level at which leaders and government institutions interact with the community, creating space for healthy civic engagement.

See Woolcock (1998) cited in Colleta and Cullen (2000); Cliffe and Luckham (2000)

In any economy, as value chains become more integrated the risk increases that microenterprises will become "captive" or dependent on single firms (or "lead firms") for access to inputs and product markets.[94] In conflict-affected environments, these lead firms are often dominated or mandated by predatory state or military entrepreneurs. Furthermore, the level of risk and the logistical constraints involved in managing or controlling value chain activity are intensified in conflict-affected environments and the regulatory controls to mitigate such risk are substantially weakened, leading to increased incentives for predatory, captive relationships. In healthier economies, microenterprises have access to alternative income-generating or subsistence activities to balance their role in a captive value chain, but in a conflict-affected environment these alternatives are often unavailable.

Finance. At the international level, trade sanctions and limitations on international financial transactions can have drastic consequences for national economic prospects as well as for individual livelihoods.[95] In situations where large segments of the population have grown economically dependent on illicit industries and conflict trade, attempting to stem these flows through sanctions may deprive entire communities of their livelihoods, driving them to resort to violence.[96] Regulatory mechanisms to restrict financial flows to conflict zones often include or explicitly target financial channels for remittances, which are feared to fund conflict activities. However, remittances also constitute a major source of livelihood security for many conflict-affected countries, as well as a source of investment in climates averse to foreign direct investment.[97]

National policies on remittances largely determine whether these funds are used for productive investments, livelihoods support, or conflict activities. In Sri Lanka, remittances from the Tamil Diaspora are largely controlled and

[94] USAID (2005) *Integrating Micro- and Small-scale Enterprises into Productive Markets.* microREPORT #29 p.8
[95] See Winer (2002) and Ballentine and Nitzschke (2005) on issues and initiatives related to international trade and finance sanctions.
[96] Jackson (2005)
[97] Fagen and Bump (2006)

facilitated by the Liberation Tigers of Tamil Eelam (LTTE) through organized financial networks that link the Diaspora with local communities. By using the same networks for the transfer of donations for community development and poverty alleviation as well as funds generated to fuel resistance to the United National Front, the LTTE has inextricably linked livelihoods to political affiliation and has created a means of co-opting these funds away from private sector investment towards conflict activities.[98] In Eritrea, the national government has attempted to direct individual remittances into government channels (presumably in an attempt both to exert central control over the economy and to strengthen the government's capacity to sustain ongoing conflict with Ethiopia). The result has been to minimize the poverty-reducing potential of these transfers; whether these remittances have long-term impact will depend on the nature of national development policies.[99] Meanwhile, federal programs to promote collective remittances in Latin America and the Caribbean have reduced poverty, but have had little impact on sustainable economic growth due to poor infrastructure, underdeveloped markets, corruption and weak investment climates.[100]

Social structures. Conflict often leads to the erosion or breakdown of social structures, including informal market systems, emergency coping mechanisms and traditional governance structures (e.g., local councils). Many of the trends associated with conflict—such as generational ruptures, urbanization and shifts in education and religious ideologies—have been found to reduce the viability of traditional coping strategies by weakening the fabric of kinship and community relations.[101] In eastern DRC, for example, a widely embraced coping strategy in response to chronic conflict was for young men to abandon agriculture and work in the coltan mines. However, this trend severely compromised the local food economy as well as traditional social and kinship relations as young men who were able to gain entry into the coltan industry considered themselves outside the realm of traditional forms of hierarchy and responsibility, and generally did not contribute assets back to their families or communities.[102]

Conflict in the context of dictatorial or military regimes can compromise traditional social structures as supposed opponents of the state are targeted, creating internal schisms within families and communities. This has been documented in Guatemala, where villages were divided during state-sponsored attacks on civilians with some villagers joining government-supported patrols involved in widespread human rights violations. The authority and status of traditional elders and religious leaders within these villages were severely undermined.[103] In Cambodia, traditional structures and coping networks were compromised first by the collectivist and repressive policies of the Khmer Rouge and Pol Pot regimes, and then by market forces, replacing networks once based on mutual support with new ones based on *rigid reciprocity*,[104] and in Afghanistan, resources traditionally allocated for communal needs (in the form of *ushr* and *zakat)* were usurped by the local Taliban administration.[105]

While some social structures must be preserved or rebuilt for communities and individuals to reestablish economic activity,[106] there is a danger of rebuilding social structures that are destructive rather than productive. Fanthorpe (2003) cites a case of a donor-funded initiative in Sierra Leone focused on restoring the authority of local chiefs, which neglected the widespread perception of these chiefs as corrupt and exploitative. In attempting to avoid a power vacuum and preserve traditional values, the initiative unwittingly reinforced a driver of conflict. Thorough community-based dialogue and consultation is therefore necessary to assess the extent to which traditional structures should be supported to expand healthy social capital.

---

[98] Palmer (2005)
[99] Newland (2004)
[100] ibid.
[101] le Billon (2000); Collinson (2003)
[102] Jackson (2003)
[103] Colletta and Cullen (2000)
[104] ibid.
[105] Goodhand (1999)
[106] Reference

Infrastructure and security. In conflict-affected economies, access to input suppliers, service providers and buyers is generally hindered by the destruction of critical infrastructure, including market infrastructure, roads, ports and airports and telecommunication channels. In Mozambique, for example, 40 percent of immobile agricultural, communications and administrative capital was destroyed as a result of conflict, as well as the vast majority of the transport industry, thus eliminating access to important regional markets such as South Africa, Zimbabwe and Malawi.[107] Even in low-intensity and geographically contained conflicts, insecurity in the form of banditry and landmines can have a major negative impact on the development of a value chain. Market access is limited as residual security concerns discourage traders from travel between important markets, and economies of scale do not develop as producers find themselves unable to organize across different production locations. IRC's program in northern Uganda selected cotton as a crop for development in large part because of security concerns: they did not want to promote a food crop that producers would be likely to market themselves in nearby towns, thereby placing them at risk of attack on the dangerous roads. Partnership with a private sector ginning company enabled farm-gate sales.[108]

In other cases, such as in Sri Lanka and Palestine, security concerns on the part of the dominant political force have translated into severe economic restrictions. Palestinian firms in the West Bank selling into Israeli end markets must navigate customs procedures that take around 22 days (and up to 43 days) due to stringent security regulations, while alternative markets are simultaneously inaccessible due to Israeli restrictions.[109]

Regional enabling environment. The nature of policy regimes in neighboring countries often has as great an impact on economic recovery prospects in conflict-affected countries as does the domestic enabling environment, determining the potential of cross-border market and information linkages, remittance flows and investment. Besides economic policies in neighboring countries directly regulating cross-border trade and investment, policies towards refugees—in particular, their ability to engage in remunerative work—can also have a significant impact on the economy of a conflict-affected country. It has been observed that in Southern Sudan, Ugandan private sector firms are benefiting from reconstruction contracts while Kenyan firms are generally excluded, reflecting the treatment of Sudanese refugees by their respective governments. The Ugandan government has been relatively generous and welcoming towards the refugees, whereas the Kenyan government has enforced stringent controls against refugee participation in the labor force and access to public services.[110]

OPPORTUNITIES

While enabling environment constraints are often among the most critical to economic recovery, conflict and the post-conflict time of transition also present significant opportunities for the emergence of a more supportive enabling environment. In countries that have long been entrenched in the same government administrations, rigid local and national government structures often cannot be changed without years of coordinated efforts. Immediate post-conflict environments, on the other hand, where government structures and institutions have been weakened or destroyed, and where momentum and hope are often at their highest, present a window of opportunity to build policies and institutions more supportive to SMEs and to private sector development in general. The loss of momentum following key transitional events (signing of peace agreements, etc.) has been identified as one of the main failures of post-conflict recovery programming.[111] The challenge, therefore, is i) to maintain momentum without overloading new or transitional governments that are struggling with immediate demands such as maintaining peace

---

[107] Bruck (2001) cited in Collier et al (2003) *Breaking the Conflict Trap* p.15.

[108] IRC Northern Uganda Guided Case Study (forthcoming)

[109] World Bank (2007)

[110] Personal communication with Tim Nourse, AED

[111] UNDG/WB (2005); UNDG, UNDP, World Bank (2006)

and security, restoring basic services, coordinating aid and controlling rampant inflation; and ii) to avoid encouraging commitments to unrealistic reforms that, when unachieved, may threaten the credibility of the government.[112]

It is critical to remain aware that private-sector investment in a post-conflict environment, by entrepreneurs of any size, occurs within a delicate calculus that attempts to predict the future outcome of an uncertain process. Since a significant proportion of conflicts recur, rational businesses will often be risk averse and postpone any significant investment. However, local and national governments can play an important role by signaling their commitment to a peaceful future. In this context, small successes matter, as well as a transparent strategy or agenda for longer-term reform and economic growth. Public success, at this point, is more important than the magnitude of the reform.[113]

It should be noted that this section refers to specific economic policies rather than widespread political reform. While strong democratic structures and institutions correlate to successful post-conflict economic recovery in countries where they existed prior to the conflict, post-conflict transitions to democracy—particularly rapid democratization processes—have been shown to weaken prospects for economic recovery.[114] While improvements in transparency can help facilitate more equitable economic policies, rapid transitions to democratic governance are not conducive to the kinds of fast, directed decision-making necessary to kick-start stagnant or receding economies. Collier, Hoeffler and Soderbom (2007) argue that external peacekeepers and robust economic growth are more critical than political reform in preventing a return to conflict.

Traditional institutions. Institutions that survive conflict—such as local government, municipal or traditional administrative bodies—provide a significant source of capital for rebuilding the foundations for sustainable market development.[115] Research from conflict-affected environments such as Afghanistan, Sierra Leone, Mozambique, Cambodia, Somalia, Guinea-Bissau, Guatemala and Sri Lanka indicates local or rural council or religious institutions continue to function throughout the conflict and post-conflict phases.[116] Such structures function as mechanisms for managing both intra-group and inter-group conflict as well as serving as local governance institutions.[117] For example, as Somalia descended into conflict and virtual anarchy, elders from different clans were able to manage and resolve some issues such as resource and service distribution using customary laws regulating conflict between clans. During and immediately after conflict, traditional institutions often evolve to take on new roles, and, depending on their original structures and relations with their communities, have the potential for replacing archaic or predatory institutional structures with more democratic, transparent ones, and to reduce the power of special interests in the process. In Afghanistan, where the Taliban had employed centralizing tactics to prevent district councils from exercising power or autonomy, the re-emergence of traditional roles of local councils has been credited with local conflict mediation, management of the local socio-economic agenda, curbing predatory power dynamics and protecting natural resources.[118]

While these institutions are often effective in responding to critical local needs, they are generally ineffective in working beyond the local level, and are therefore insufficient to support broad-based economic development.[119]

---

[112] Beasley (2006) p.3; Addison (2003b) gives the example of Angola's chaotic and unproductive reform process over the last decade (now fifteen years).
[113] Personal communication with Scott Kleinberg, USAID
[114] See Paris (2000), Flores & Nooruddin (2006 & 2007)
[115] World Bank (2003) *Building Capacity in Post-Conflict Countries*
[116] On Sierra Leone see Fanthorpe (2003) and Richards et al (2004); on Afghanistan see Bhatia and Goodhand (2003), Goodhand (1999) *?*; on Somalia and Afghanistan see Watson (1999) (cited in Schafer 2002); on Mozambique see Geffray (1990); and Black, Schafer and Serra (2000) (cited in Schafer 2002); on Somalia, Cambodia and Guatemala see Colletta and Cullen (2000); on Guinea Bissau see Boubacar-Sid et al (2007); on Sri Lanka see Goodhand et al (2000)
[117] See Bhatia and Goodhand (2003); Fanthorpe (2003); Colletta and Cullen (2000).
[118] Bhatia and Goodhand (2003)
[119] Cullen and Colletta (2002)

Conversely, where functioning national institutions do exist, they often fail to coordinate with and respond to the interests of local level institutions. The National Commission for Social Action in Sierra Leone, mandated with responsibility for planning, coordination, supervision and monitoring of all humanitarian, reintegration, resettlement and reconstruction work in the country, and later for facilitating the transition from relief to sustainable development, failed in attempts to establish liaison committees at the chiefdom level largely due to a lack of understanding of the nature of chiefdom politics.[120]

However, not all local institutions are benign. The central thesis in all post-conflict work is to "do no harm." The first step in working with any group or institution will be to carefully assess whether that group may exacerbate the risk of conflict. The conflict may have been the result of an inequitable distribution of economic benefit, and if the post-conflict program replicates that status quo, additional conflict may be likely.

Private sector. The conflict and post-conflict environment also presents an opportunity to engage the private sector in advocacy for policy and regulatory reform, either as part of a broader post-conflict civic engagement agenda or as part of an economic recovery strategy.[121] The risks in engaging the private sector in post-conflict environments need to be addressed during the conflict analysis stage. Practitioners need to be aware of private sector stakeholders' relationships to conflict dynamics to ensure that value chain development interventions do not strengthen or provide legitimacy to actors who have emerged from the conflict as business leaders due to rent-seeking or predatory behavior.

During the conflict, it may be possible to mobilize the business community in commitment to peace and security, and eventually reconstruction. This has been the case with private sector entities created to combat crime and ensure security and stability such as the Patriotic Movement Against Crime in El Salvador, Business Against Crime in South Africa, and the Mogadishu Security and Stabilization Initiative in Somalia.[122] In some low-intensity conflicts, a foundation can be established for involving private sector actors in policy dialogue and advocacy by engaging business leaders in the process of negotiating and navigating peace agreements, as was the case in El Salvador, Guatemala and Northern Ireland. In El Salvador and Guatemala, business leaders actively participated in peace negotiations, helping to shape the final peace agreement, and participated in a citizen's advocacy initiative against crime.[123] In Northern Ireland, business leaders engaged in advocacy and direct support of the peace process through two mechanisms—one aimed at the broader business community, emphasizing the benefits of a "peace dividend"; the other working through a joint public and media campaign as well as direct engagement with conflict parties.[124]

A forum for public-private dialogue on policy and regulatory issues may enable local businesses and government to establish regulations conducive to the functioning of businesses even in the absence of a national regulatory framework[125] (see text box, below). Furthermore, new or transitional governments are likely to need assistance from the nascent or re-emerging private sector in identifying and formulating policies to kick-start economic recovery and growth.[126]

Strategic planning for sector development and corresponding stakeholder dialogue should be simultaneous with immediate policy reform as "critical to underpinning future development dialogue, without which ownership of the

---

[120] Fanthorpe (2003)

[121] See Hertzberg (2004) on the "Bulldozer Initiative" in Bosnia and Herzegovina; *Local Business Local Peace & the Business of Peace* on engaging private sector in post-conflict advocacy

[122] International Alert (2005b).

[123] Rettberg (2005)

[124] International Alert (2005b)

[125] Miehlbradt and McVay (2006) p. 72

[126] On the policy requirements for kick-starting economies by attracting investment see for example Weinstein and Tidball (2007); Mills and Fan (2006); Beasley 2006; Muia (2003)

process risks becoming nominal rather than national."[127] Once some level of stability has been established, business leaders can be engaged in initiatives to attract local foreign investment and lobby for preferential terms of trade, as has been done through the Transatlantic Business Dialogue and South and East European Cooperation Initiative in the Balkans, the SCS Alliance Bank in Kosovo, and the Peres Center for Peace in Israel and Palestine.[128]

The private sector in neighboring countries has in some cases invested in or lobbied for integrated transport and infrastructure, as has been the case with infrastructure integration schemes throughout the South Caucasus, modeled on the integrationist strategy of the EU.[129] This is particularly critical in landlocked countries, which are vulnerable to and dependant on their neighbors for markets and infrastructure.[130]

Informal economies. Informal economies tend to thrive and innovate in the absence of regulation and foreign investment. This trend has been observed in Latin America throughout the 1980s; East Asia during the economic crisis of the late 1990s; the Newly Independent States in the 1990s; and Sub-Saharan Africa from the 1990s to the present.[131] It is also a trend that is being mirrored at present in Iraq. Understanding the strengths and assets of informal economies is critical to developing appropriate regulatory policies. Many workers in the informal sector will need training and education to become part of a strong labor force for industry development. Policies to strengthen human capital through investments in education and skills training are therefore necessary for long-term value chain development. In Iraq, only the informal sector of the economy survived both Saddam Hussein's rule and the instability following his overthrow.[132] Iraq fits the classic profile of a country possessing a large informal economy: "an inward-oriented trade regime with high levels of corruption" compounded by war, sanctions, insurgency and demographic pressures.[133] In the post-Saddam era, trade liberalization, bureaucratic corruption, insurgency and uncertainty have contributed to creating an informal economy estimated at 65

PRIVATE SECTOR INTIATIVE IN SOMALIA

In Somalia, infrastructure, telecommunications, financial services, trade, transport and even public services have managed to function and thrive in the absence of cohesive local or national governing structures for much of the country's decades-long conflict, as a result of private sector initiative and a steady flow of remittances. This has been particularly true of the more secure northern part of the country, but there have also been successes in Mogadishu. In Somalia, remittances are channeled to businesses rather than to the most vulnerable segments of the population for basic survival. This has facilitated the emergence of complex and sophisticated financial and trade networks. The private provision of basic services in Somalia (which is widely acknowledged to have been more effective than the previous internationally recognized government) has been structured in a way that transcends clan and regional lines, thus helping to strengthen cross-cutting social capital.

See Maimbo, S.M. (2006); Colletta and Cullen (2000); International Alert (2005b); Ballentine and Sherman (2005)

---

127 UNDG/World Bank (2005); also World Bank (2002)

128 International Alert (2005b)

129 Bilateral and multi-lateral donors have provided somewhere in the order of a billion US dollars for infrastructure reconstruction and integration schemes targeting the South Caucasus over the past decade, which is estimated to be only a fraction of the needed budget. Karakhanian, A. and A. Mkrtchyan (2004) "The Role of Economic Cooperation in the Settlement of Conflicts in the South Caucasus" in *From War Economies to Peace Economies in the South Caucasus* p. 91

130 Faye et al (2004)

131 Looney (2006); cites Tokman (1992) on Latin America; Lee (1998) on East Asia; Fashoyin (1993) on Sub-Saharan Africa; and Oxford Analytica (2004) on the NIS.

132 Looney (2006) p.991

133 ibid p.995

percent of GDP. Donor-funded initiatives are building on informal economic activities to develop the SME sector and are creating networks to engage informal actors in this process.[134] Informality should not be viewed as either a positive or negative factor in and of itself, but rather a rational response to the incentives created by the existing business enabling environment.

Remittances. Estimates of global remittances approach $250 billion annually, often totaling more than exports in developing nations.[135] Particularly in conflict-affected environments, where the investment climate for foreign direct investment is weak, these financial flows constitute a critical potential investment base. Currently, however, only a small fraction of remittances are invested. A 2006 survey of African Diaspora communities indicated that 49 percent of the respondents remit for sustenance (on average US $200 per month), and less than 19 percent remit also for investment.[136] In some cases remittances help to avoid further displacement in conflict-affected environments by providing a safety net for affected communities; in many cases they fund departure from the country to seek employment abroad.[137] Despite the lack of investment in productive, competitive industries, the literature includes examples of remittances being used for social infrastructure, services and income generation projects,[138] as well as for creating and developing business opportunities even in the most unstable environments, including Afghanistan, Sri Lanka and Somalia.[139]

Economic recovery and growth could be expedited through the more consistent channeling of remittances into competitive industries capable of engaging economically marginalized segments of the population. DfID's "Africa Diaspora Investment Forum," attempts to facilitate this through a platform for African governments to harness both the remittances and technical skills of their Diaspora communities in order to drive economic growth in key industries.[140] Beyond logistical support in mobilizing resources, enabling environment reform is critical to channeling remittances into productive investments. The most successful models are in non-conflict affected countries such as China, India and Taiwan; nevertheless, there are examples of strong policy environments for remittances in conflict-affected countries also. In the Philippines, for example, the government had a three-pronged strategy: i) the elimination of policies that discourage remittances, such as overvalued exchange rates and mandatory remittance quotas; ii) the creation of incentives such as tax breaks and privileged investment options for overseas residents; and iii) the facilitation of the transfer of funds.[141]

INTER-FIRM RELATIONSHIPS

Social capital. Social capital is essential for the economy to function successfully. Strong inter-firm linkages and high levels of trust and cooperation, particularly within geographically concentrated clusters, allow value chain actors to respond more quickly and effectively to market cues,[142] as illustrated by Israel's highly competitive fruit, vegetable and fresh herb export industries, often used as a model of market-driven agricultural development. USAID's value chain approach therefore focuses heavily on relationships between actors in a value chain: how power is wielded within relationships, how actors learn and share information, and how benefits are distributed among the actors.[143]

---

134 Umari and Abu Alitmen (2005)

135 Ballentine and Sherman (2005) p.1

136 Africa Diaspora Investment Report 2006 http://findajobinafrica.com/findajobinafrica/adc/DownloadAccessResult.jsp

137 Ballentine and Sherman (2005) p.1

138 Ballentine and Sherman (2005) p. 6

139 See Ballentine and Sherman (2005); see also Colletta and Cullen (2000) on Somalia.

140 www.africadiaspora.com

141 Newland (2004)

142 USAID (2005) p.15

143 See Annex A

A huge body of research has emerged relating to social capital, which has been applied to conflict-affected environments in a number of recent studies.[144] The literature breaks social capital into several dimensions:

- the organizational integrity and effectiveness of state institutions and their relations with civil society—discussed above as part of the enabling environment
- strong ties (integration)—which unite nuclear and extended family and community members, largely based on kinship, ethnicity and religion; strong ties are often manifested as protectionist mechanisms for livelihood safety nets
- weak ties (linkages)—networks and associations connecting people beyond their kinship, ethnic or religious communities. Weak ties are often based on some civic, political or economic interest.
- the confluence of social responsibility and social initiative—which ensures community and social protection while driving socio-economic growth and development[145]

Value chain linkages are a critical source of social capital in any economy, but in conflict-affected areas, where much of the physical capital has been lost, these linkages take on even greater importance. While value chain linkages are clearly compromised by conflict, it can take longer for socio-economic ties to fully disappear than for infrastructure or facilities to be destroyed or for capital flight to occur. It can, however, also be more difficult to assess the deterioration of inter-personal and inter-firm linkages than physical destruction or weak governance.

The effects of conflict on social capital depend on the type of conflict. Inter-state conflict often calls for national unity to strengthen societal cohesiveness. The more prevalent intra-state conflict, however, weakens social fabric, dividing the population by undermining interpersonal and communal relations, coping mechanisms and trust, and destroying the norms and values that underlie cooperation and positive collective action.[146] Displacement resulting from violent conflict often increases risk, reduces access to information, negates long-term planning and leads to a loss of location-specific assets, contributing to the breakdown of social and economic coordination, collaboration and investment.[147]

In some situations, shifts in traditional or social structures have contributed to conflict. For example, in Sierra Leone, a root cause of conflict has been the control exerted by rural elders over the labor (as well as marriage) of young men. Many young men leave the villages for diamond mines in order to escape this traditional control, and therefore find themselves vulnerable to recruitment into armed militias.[148] By addressing these traditional governance structures and helping to introduce mutually beneficial alternatives, social capital can be rebuilt and economic potential strengthened.

In some cases, the penetration of market principles and monetization has been found to erode local trust and mutual assistance, particularly in countries with socialist or communist legacies. Many Cambodian villagers saw market penetration as being a more significant factor than conflict itself in the weakening of local social capital, particularly in terms of shifts in familial and intra-community ties and inter-community relations.[149] Socio-economic transformation spurred by globalization often interacts with conflict dynamics to create a radical shift in social capital,[150] with implications for inter-firm trust and relationship dynamics.

---

[144] Colletta and Cullen (2000); Richards et al (2004), Grootart and Bastelaer (2001), Morfit (2002), de Sousa (2000), Goodhand et al (2000)
[145] Colletta and Cullen (2000) pp.53-54.
[146] Colletta and Cullen (2000) pp.3-4
[147] Ibanez Carlos, A. and E. Velez (2003) *Forced Displacement in Colombia: Causality and Welfare Losses.*
[148] Richards et al 2004)
[149] Colletta and Cullen (2000) p.78
[150] ibid

Power. Conflict tends to radically alter pre-existing power dynamics in any community or society. The dynamics of violent conflict often replace traditional leadership structures with (illicitly obtained) resource-wealth determinants of power. This phenomenon has been documented in the DRC and Sierra Leone, both of which have experienced forced labor in mining controlled by military or militia forces, mineral contracts with multinationals to finance conflict operations and the exchange of mineral wealth for guns and drugs.[151] In Casamance, domination of the transportation and trade of commodities such as timber, fruit and nuts by various military factions is largely institutionalized, but not characterized by the same violent predation.[152] Combatants serve as intermediaries in selling wood to local and Senegalese carpenters and dominate the purchase and resale of finished furniture products. The military is heavily involved in transporting cashews and fruit from areas abandoned by or inaccessible to civilian populations because of insecurity, and selling them into traditional market channels. The resulting economic benefits help to explain the perpetuation of the war economy and therefore the conflict itself.[153]

Learning. Just as critical to a well-functioning value chain as the flow of products up the chain towards the consumer is the flow of information and learning from the end market down to the producer. Accurate and timely information on specifications, quality standards, volume and price is critical to producers' ability to deliver products that will be accepted by buyers at a fair price. Therefore one of the most significant results of weakened inter-firm linkages is the breakdown of key channels of information and learning. Missing actors and intermediaries, compromised relationships and lack of access to contacts contribute to the failure of information transfer. Risk-averse buyers reduce levels of downstream investment in technical and business training to help suppliers meet market standards, and publicly sponsored market information systems and investment promotion initiatives are often beyond the capacity of conflict-affected administrations. As a result, conflict-affected value chains are often characterized by truncated marketing systems, lacking forward linkages to value-adding facilities and backwards linkages to input suppliers. This eliminates opportunities for embedded services and financing as well as channels for demand-driven market information. The fruit and nut industries in Afghanistan provide clear examples of such value chain truncation.[154]

Inter-firm coordination. According to value chain research to date, inter-firm coordination is expected to be weak in emerging industries, transitional economies and those with weak or hostile business enabling environments. Conflict-affected environments often exhibit all of these characteristics, making inter-firm coordination a significant challenge. Inter-firm trust—the main pre-condition for inter-firm coordination—is inevitably compromised by the weakening of vertical and horizontal linkages and corresponding weakening of productive social capital as discussed above. Trust is also often shaped or compromised by issues of mistrust between segments of the population, which transfers into business relations, and is reinforced by perceptions of unequal benefits from value chain development. Where value chain linkages function in atmospheres of weak trust and unbalanced power dynamics, the distribution of benefits of value chain development is inevitably skewed against the weaker players, giving them less incentive to invest in value chain upgrading.

VERTICAL LINKAGES

The term "vertical linkages" refers to the relationships between firms at different levels of the value chain. Vertical linkages not only incorporate transactions between buyers and sellers, but also facilitate the transfer of information from end markets to upstream actors and the delivery of embedded services. Information and services (including

[151] *Jackson (2003); Fanthorpe (2003)*
[152] Evans (2003)
[153] ibid.
[154] DAI (2005)

financial services) are critical to firms' ability to upgrade.[155] Efficient vertical linkages that minimize transaction costs are likewise essential to the competitiveness of the chain.

CONSTRAINTS

Market access. Contact and interaction between value chain actors—particularly vertically linked actors, who tend to be more geographically dispersed—is hindered by residual insecurity and the destruction of transportation infrastructure and information and communication technologies. Furthermore, in conflict-affected environments, market channels often fluctuate from week to week or month to month and from household to household according to the security and market situation, meaning that buyers do not establish consistent linkages or relationships with sellers, compromising the emergence of vertical linkages which thrive on consistency and reliability.[156] This is particularly prevalent when local economies are dominated by commodities that are subject to global price fluctuations, such as Kivus in DRC with its dependency on coltan's fluctuating prices.[157]

Conflict-imposed embargoes also destroy market channels and incentives for upgrading. For example, the complete embargo enforced by the Sri Lankan government on products from and to the Tamil-held North and East Provinces severely affected the agriculture and fisheries sectors; the impact is still being felt today—seven years after the embargo was lifted—as the result of continued insecurity and enabling environment constraints.[158] Similarly, Israel has effectively placed a permanent embargo on Palestinian products, which can be exported into or beyond Israel only through Israeli intermediaries, with devastating effect for the potential of horticulture industry in the West Bank and Gaza.[159] Israel's economic and security blockades not only restrict access to export markets but also constrict domestic market access: The percentage of firms selling goods outside of their home city decreased by 20 percent from 2000 to 2005.[160] The use of alternative market channels to circumvent embargos may also spark or fuel conflict. For example, the ability of the Muslim population in Tamil-controlled areas to maintain trade links with other provinces and neighboring countries during the government-imposed embargo fueled tensions between the Muslim and Tamil populations.[161]

Death and displacement. The death or displacement of key segments of the population (based on ethnicity, kinship, class or geographical location) often has implications for certain functions or professions that are highly concentrated within those groups. This was seen dramatically with the targeting of educated elites in Rwanda and Cambodia—for reasons of class resentment recast as ethnic division in Rwanda and for ideological reasons adopted by a repressive communist regime in Cambodia. Both led to the fragmentation of communities and an erosion of family and kinship bonds as well as broader ties of association.[162] The same phenomenon occurred in Sierra Leone where white collar workers were targeted for tactical reasons by the RUF.[163]

The forced displacement of certain groups—a key characteristic of modern intra-state and regional conflicts—often results in the most skilled, talented and resourced individuals seeking asylum abroad, precipitating a chronic "brain drain." This has been the case for example with the relatively well-educated Tamil population in Sri Lanka: Economic migrants were soon joined by hundreds of thousands of refugees. Similarly, the highly educated and successful Somali

---

[155] Dunn et al (2006)
[156] Jackson (2003); Bruck (2003)
[157] Jackson (2003)
[158] Sarvananthan (2003)
[159] World Bank (2007) The enforced reliance on Israeli intermediaries also contributes to the integration of the Palestinian and Israeli economies which results in Palestinian labor costs being 2-3 times those of its neighboring Arab countries.
[160] ibid.
[161] Palmer (2005)
[162] ibid.
[163] Keen (2001) cited in Humphreys (2003)

Diaspora began with economic and political migrants and grew to include large numbers of people escaping disastrously governed Somali territories.[164] Forced displacement and voluntary migration of certain segments of the population also often results in diluting the skill base and market systems of certain geographic areas, as has been the case for example in Sri Lanka and Afghanistan in particular, where ethnic lines are drawn geographically.

In some cases residual employment discrimination against certain ethnic or religious groups also translates into a failure to harness the full potential of human capital. This has been witnessed in Malaysia, where decades after the start of race riots by native Malays, blatant employment discrimination is still in practice, fueling ethnic tensions between Malays and the historically more successful Chinese and Indian communities.

While these trends affect both vertical and horizontal linkages, it is often the vertical disruption that is more critical to value chain development. Downstream actors (buyers, exporters, etc.) are generally able to flee early in a conflict, often with their assets as well as their critical end-market linkages, and sometimes take the opportunity to engage in opportunistic and rent-seeking behavior. Technical experts, critical to driving innovation, are similarly often early migrants. In the July-August 2007 war between Israel and Lebanon, the first to leave were professionals and entrepreneurs, taking with them approximately $2.5 billion of capital.[165] It is often upstream actors (closer to production) who are subject to forced migration, displacement, stripped of assets and denied access to services.[166] Intermediaries generally have more flexibility to shift from their functions in pre-conflict value chains to similar functions in conflict or illicit value chains. In Afghanistan, for example, traders have been shown to move flexibly between functions in the opium trade and other licit value chains.[167]

MILITARY DOMINATION OF LUCRATIVE VALUE CHAINS

In the DRC and Sierra Leone, military objectives have been aligned towards the capture of major mineral deposits; rebel-dominated monopolies have controlled the purchase and export of minerals; militia forces have shifted from a role of ethnic protection to protection-racketeering and the economic exploitation of populations and resources; and a systematic and intimate relationship has developed between economics and military activity. Military elements either operate their own concessions, offer protection for mining in return for a percentage of ore, or force labor in labor-intensive mines. Population displacement from mineral-rich areas is also frequently engineered, as is the violent looting of mined minerals. In the DRC, Congolese, Rwandan and international conflict entrepreneurs also dominate intermediary roles, driving out independent intermediaries and further fueling conflict.

See Jackson (2003)

Power dynamics. State or military entrepreneurs—individuals who had positions of power during the conflict—often continue to dominate vertical transactions, functioning as intermediaries and capitalizing on vertical integration and tight control of the value chain with either legal or effective restrictions on intermediary activity (see text box). This is especially true in guerilla or predatory war economies.[168] The extent of military domination of value chains is

---

[164] Fagen and Bump (2006)

[165] Lebanese Republic (2007) "Recovery, Reconstruction and Reform" International Conference for Support to Lebanon: www.pcm.gov.lb/NR/rdonlyres/4D817E6A-39C8-4F26-AF27-9C8C830E29F5/0/paris3En.doc; Brookings Institute *Restoring Post-War Lebanon* http://www.brookings.edu/events/2006/1005middle-east.aspx

[166] On these social capital and labor market trends see for example Krishnamurty (2003); Cullen and Colletta (2000), Keen (2001); Humphreys (2003)

[167] Goodhand (forthcoming)

[168] A guerrilla war economy is characterized by large armed groups that develop close ties with local populations through political persuasion in order to access local resources to fund guerrilla activities. A predatory war economy is characterized by armed groups who use violence,

often related to the type of terrain, particularly in the areas of production, with remote terrain more easily contested or controlled by fragmented militias operating as economic actors. Goodhand and Atkinson (2001) reference the need to understand the vertical linkages between micro- and macro-level processes, such as the links between the poor opium farmer in Afghanistan, the commander who controls the local drug trade and the Central Asian drug mafia which links into global markets.[169]

VERTICAL LINKAGE CONSTRAINTS IN A SOUTH CAUCASUS MARKET

A study of the prospects of regional economic integration in the South Caucasus identified the following constraints to economic cooperation between Turkish and Armenian traders and businesspeople:

- It is increasingly difficult to penetrate the Armenian market. As the market has become more structured access has become harder for businesspeople with limited capital.
- Turkish businesspeople complain that their Armenian partners look for short-term profit and lack creditworthiness.
- The cancellation of orders is a major risk, particularly with regard to perishable goods or products with high transport costs.
- The determination of prices is erratic. Sellers tend to increase prices if the buyer is Turkish, especially if the merchandise is for export.
- The settlement of transactions is problematic and so payment must usually be made in cash.
- Boycotts against Turkish products, organized during a period of political tension, continue to worry Turkish merchants.

Source: Gultekin (2004)

Pervasive mistrust. In well-functioning economies, trust[170] between buyer and seller reduces the costs and risks of transactions, allows for the establishment of buyer or seller financing, enables forward contracting and reduces the cost of ensuring contract compliance. While healthy competition is critical to driving innovation and efficiency, mistrust between firms that prevents the cooperation necessary to achieve industry-wide goals is a constraint to competitiveness in any economy. In post-conflict environments, mistrust is generally widespread and intensely felt, leading to atomistic and opportunistic behavior at the firm level and a lack of vision, efficiency and information sharing and learning mechanisms at the industry level. Inter-firm trust tends to be overshadowed in the conflict literature by the more general breakdown of the "moral economy of exchange,"[171] whereby societal norms that dictate an expectation of honesty and mutual protection are replaced by a widespread expectation of predation and corruption.

Where trust is weakened as a result of the causes or impact of conflict,[172] market transactions—particularly, but not only, those involving groups from different sides of a conflict—are compromised and markets deteriorate (see text box, right). However, market transactions themselves, as well as collaboration to access inputs, services and end markets, often reinforce trust, which contributes both to productive economic activity and to broader conflict mitigation.

---

predation and forced labor to control local populations and economic resources, leading to progressive exhaustion of resources and diminishing political support. From Le Billon (2000a)

[169] Goodhand and Atkinson (2001)

[170] Trust can be assessed by the propensity for cooperation and exchange (material, ritualistic and informational). Colletta and Cullen (2000)

[171] Azarya, cited in Harvey (1997); and Frankenberger and Garrett (1998); cited in Schafer (2002)

[172] Examples of causes of conflict leading to mistrust include ethnically-defined grievances and state-led repression and exploitation of certain segments of the population; examples of impacts of conflict contributing to mistrust include the mobility of players, weak rule of law and desperation.

OPPORTUNITIES

Resiliency. While value chain linkages are susceptible to being compromised and transformed as a result of conflict, they also represent an opportunity in their resiliency and flexibility. Physical capital is often destroyed and has to be rebuilt, but linkages are often transformed rather than completely shattered. The competitive and self-reliant spirit fostered by conflict and residual effects, such as economic isolation, can be harnessed into innovation and entrepreneurial drive in post-conflict economies. This has been observed in Jaffna, northern Sri Lanka, or Azbhazia, South Ossetia and Nagorno-Karabakh.[173] Where violence, crime and political uncertainty undermine investment (both foreign and domestic), informal economies thrive and innovate.[174] Nontraditional linkages may proliferate as a result of conflict, encouraged by the potential investment of a Diaspora, the absence of excessive state regulation and control, and the disruption of constraining traditional structures.[175] New, more efficient vertical linkages may emerge to circumvent missing or weakened linkages resulting from conflict (see text box).

VERTICAL LINKAGES IN NIGERIA

When conflict erupted in the town of Jos in September 2001, spurred by long-term structural and economic grievances, hundreds of people were killed and thousands displaced. Yet the market network in perishable vegetables was rapidly restored by value chain intermediaries (particularly women traders) who reinstated forward credit and marketing linkages between conflicting groups, allowing farmers to sell produce at distant markets in areas dominated by other religious and ethnic groups. For example, Berom tomato retailers in Jos urban markets are still able to borrow substantial sums from Hausa and Fulani wholesalers without collateral, referring to their "longstanding trading relationships" as the basis for the strong informal trading practices among them.

See Lyons et al (2005) in International Alert (2005b)

Value chain linkages that prove resilient to conflict may be able to play a critical role in rebuilding markets. Remaining economic structures and linkages need to be identified during the design of relief interventions, assessed for their impact on the drivers of conflict, and if appropriate integrated into interventions as early as possible.[176] A value chain project has recently been initiated in Sierra Leone following this approach: designing interventions to capitalize on remaining value chain linkages.[177] In West and Central Africa and Central Asia, mutually reinforcing transnational conflicts have not only led to regional conflict formations but also to regional economic networks, which can be transformed and utilized to strengthen licit value chains.[178] The Lebanese hashish and poppy industries relied on complex mechanisms of cooperation and compensation between regions and across sectarian lines both regionally and internationally,[179] mechanisms that are now contributing to emerging licit industries such as high-value food and tourism. Financial and other supporting markets that served these industries have similarly fueled the development of licit industries in Lebanon.

Market access. Linkages to end markets are often facilitated by kinship networks. This has been observed in Guinea-Bissau, where kinship relationships facilitate market access between urban and rural areas;[180] and in the Horn of Africa, where Somali migrant and refugee communities (particularly in Nairobi) serve both as a source of goods unavailable in Somalia and as a market for traditional Somali food products, such as camel milk.[181] In other cases, market access has been

---

173 International Alert (2004).

174 See Looney (2006) on Iraq, which follows the pattern of Latin America and Southeast Asia.

175 Colletta and Cullen (2000) pp.77-78.

176 Kretzmann and McKnight (1993) refer to asset-based—rather than deficit-based—development (cited in Weinstein and Tidball 2007)

177 ACDI/VOCA/World Bank (2007)

178 Ballentine and Sherman (2003) p.9; citing Mwangi Kagwanja and Ntegeye (2001)

179 Picard (2005) pp.33-34.

180 Laurenco-Lindell (2002) cited in Boubacar-Sid et al 2007 p.31

181 AU-IBAR & NEPDP (2006) *Kenya Livestock Sector Study*. USAID/Kenya

facilitated in spite of kinship and ethnic differences. In inter-ethnic, informal marketplaces in Nigeria, market interactions have provided an arena for mediating conflict, facilitated in particular by women traders who link diverse ethnic groups through economic interest. Clients and associates of traders from different ethnic groups have protected them from inter-ethnic fighting to preserve their market linkages.[182]

Access to regional markets depends on several factors: the extent of spatial spillovers of the effects of conflict;[183] the extent of reliance on neighboring country infrastructure (especially for land-locked countries affected by conflict);[184] the extent to which cross-border regulatory policy is being enforced; and the social, cultural or ethnic affiliations of communities in neighboring countries with those in the conflict-affected areas. In the absence of enforced cross-border trade regulation, Somali traders have been effective in penetrating regional and international markets through efficient trading and financial systems, supporting service markets and strong cultural and business linkages with Somalis in neighboring countries. Somali women's groups have opened markets that allow for exchange between warring clans, encouraging cross-cutting ties and raising the economic stakes of engaging in or supporting conflict.[185]

Similarly, regional markets located in border zones of countries within the former Yugoslavia and the South Caucasus have presented opportunities for interaction in the midst of conflict, re-establishing commercial relations between formerly conflicting parties, facilitating freedom of movement, responding to market demand on both sides of the border, and creating momentum for a more supportive enabling environment.[186] There are many examples of Armenians and Azerbaijanis trading in Sadakhlo market, and then collaborating for joint ventures in Russia.[187] The Arizona market in Brcko District served as a forum for economic integration between Serbs, Croats and Bosnians. Brcko enjoyed the highest wages in the country as a result of the market's activities, demonstrating the role of functioning markets in creating economic impact locally as well as regionally.[188] Market actors in these circumstances have been shown to function according to an unwritten code of conduct based on trust in one another's respect for business relations, which contributes to mitigating conflict.[189]

Opportunities for export market access for conflict-affected economies occasionally come in the form of campaigns driven by socially conscious consumers. Retailers may be persuaded to respond to—or may even anticipate—this demand by providing forward contracts or making small-scale pilot purchases of products. For example, responding to consumer trends, Whole Foods UK began sourcing niche specialty food products, produced by Lebanese SMEs under the *Equitable Gourmet* brand, within six months of the end of the July-August 2007 war with Israel.[190] Along with stimulating upgrading through capital infusions, these arrangements provide substantial market information from consumers and retailers, enabling producers to tailor and improve their products in response to end market demand. Socially conscious consumers may also indirectly force intermediaries to support upgrading within certain industries, as when European consumer pressure against Israeli goods pushed Israel's AgrexCo to source from and finance Palestinian producers under a separate label.[191]

---

[182] Lyon, F. et al (2005)
[183] Murdock and Sandler (2002a and 2002b)
[184] Faye et al (2004)
[185] Colletta and Cullen (2000) pp.62-64; 76-78.
[186] International Alert (2004) *From War Economies to Peace Economies in the South Caucasus* offers an excellent analysis of the opportunities and constraints facing such border markets in relation to conflict dynamics, focusing on the Ergneti Market between South Ossetia and Georgia, and the Sadakhly Market on the border zone between Armenia, Azerbaijan and Georgia. On market activity on the borders of Bosnia and Herzegovina see Divjak (2005)
[187] Balayan (2005)
[188] Divjak (2005).
[189] International Alert (2005b) p.536; International Alert (2004)
[190] http://www.equi-table.com/
[191] Dajani et al (2005)

HORIZONTAL LINKAGES

Horizontal linkages are the relationships between firms at the same level of the value chain. Horizontal linkages between firms—whether informal or formal—can reduce transaction costs and create economies of scale that contribute to increased efficiency throughout the chain. In addition to facilitating access to lower-cost inputs and services, including finance, linkages can increase efficiency as a result of the sharing of production skills and resources and can enhance product quality through common production standards. Formal and informal linkages allow for collective learning and risk sharing, thus increasing the potential for upgrading and innovation.

CONSTRAINTS

Most of the constraints discussed above—including the loss of human capital, pervasive mistrust and opportunism—also affect horizontal linkages. Many of the informal coping mechanisms employed in times of crisis involve horizontal ties with nuclear and extended family and with the wider community. The breakdown of these mechanisms under the strain of conflict contributes to a loss of social cohesion and trust, and consequently to a decline in the density and nature of organizations and networks, and of members' sense of commitment and responsibility to these groups.[192] Further, conflict constrains resources, constricts time horizons and increases risk, reducing the ability and incentives of actors to invest in the strengthening of horizontal linkages.

Conflict also compromises horizontal linkages by impeding access to and communication with outlying or heavily-affected areas of the country. Weak horizontal linkages reduce economies of scale, particularly at the production level. This in turn eliminates opportunities to lower transaction costs, increase bargaining power and access improved services. Weak or imbalanced horizontal linkages have the potential to make decision-making mechanisms more protracted, to be disabled by lack of trust, and to be manipulated by actors in positions of power.[193] This has been exhibited in the economic recovery of Rwanda, where horizontal linkages were weakened by state-led campaigns to create rifts throughout society; and in the DRC as a result of large areas of the country with no connecting roads or telecommunications infrastructure and the propensity of entrepreneurs to maintain linkages primarily or even exclusively with their own communities.[194]

Associations. Associations, cooperatives and other formal and informal groups are generally heavily impacted by conflict. In some cases association structures completely collapse as members are displaced and infrastructure is destroyed. In other cases, groups have been forcibly co-opted by politicians or the military as sources of labor, to provide services, or as a forum for indoctrination. Throughout many former socialist and authoritarian regimes, producer groups have had to be developed, structured and even named in a way that actively disassociates them from the legacy of state-controlled cooperatives.[195]

The nature of associations may be compromised by shifts in economic structures: for example, in Rwanda, the drastic abandonment of agriculture as a result of the war resulted in the disbanding of agriculture-related cooperative associations, which incorporated both Hutu and Tutsi. Since the war, new associations and informal networks have emerged, but they focus on addressing the legacies of war (mostly exclusively for either Hutu or Tutsi) rather than focusing on economic cooperation.[196]

Research has shown that weakened horizontal linkages impede innovation as communication between groups and the institutions to support this break down.[197] In some cases, the realignment of horizontal linkages across ethnic or other

---

192 These are identified as measures of social cohesion by Colletta and Cullen (2000).

193 Parnell (2001); Schafer (2002)

194 Braud (2005)

195 ibid.

196 Colletta and Cullen (2000) p.47-49.

197 Tsai and Ghoshal (1998)

group lines may have implications for product quality, differentiation and branding. In Afghanistan, for example, ethnic groups that did not traditionally produce carpets shifted into carpet production for lack of viable alternatives. The involvement of Pashtun and Hazara ethnic groups in carpet production has altered the style through the introduction of new patterns and has led to a lower-quality product as traders are unable to keep the increased number of producers supplied with high-quality inputs.[198]

It should be noted that the harder a community or region is affected by conflict, the harder it may be to focus associations and other groups on value chain strengthening activities. Even in stable environments, horizontally organized groups have trouble shifting from a social agenda to that of policing product quality.[199] This is particularly the case in rural environments.[200] In a conflict-affected environment where basic needs are likely to be consistently unmet and social safety nets are essential for survival, focusing such groups on value chain functions rather than social functions is likely to be even more difficult.

Toxic social capital. Just as the destruction of social capital can be a major constraint to economic innovation and growth, the emergence and strengthening of certain kinds of (toxic) social capital can be similarly counterproductive as networks form that are closely protected and have limited communication with outsiders, or that strengthen an elite group at the expense of the greater population.[201] Combatants manifesting this behavior include the Angka under the Khmer Rouge regime in Cambodia; the Interahamwe in Rwanda; the Guatemalan Civil Defense Patrols (PACs) and Somali Renegade clans.[202] Often in these cases, social capital within groups increases as links between groups are weakened, with an overall negative effect on societal cohesiveness and economic potential.[203]

Harvey (1997) warns that external support for civil society through the promotion of local associations, such as NGOs, often transforms the original objectives of the associations, or stimulates the creation of organizations whose goals are more closely linked to those of the external body than of the supposed constituency. While social capital is not synonymous with "civil society," or any particular form of organization, it is often translated into support for local organizations because of the structure of aid agencies and the pervading imperative to build local capacity.[204] In Rwanda, for example, decades of assistance targeted NGOs, church-related organizations, cooperatives and credit groups—none of which had fostered substantive trust between Hutus and Tutsis. In the post-conflict phase, civil society organizations tend to be exclusive and cater to members of their own perceived ethnic groups.[205] An exception is the emergence of cooperation within coffee cooperatives catering to external markets: Post-conflict cooperation and reconciliation has been part of the marketing success of Rwandan coffee.[206] However, even in this case, Rwandan respondents described economic cooperation as a necessity for survival, rather than the result of trust, even among members of joint associations.[207]

OPPORTUNITIES

On a more positive note, there are many documented examples of horizontal linkages for economic activity being strengthened as a result of conflict. In Mozambique, wartime and post-war dynamics created the conditions (increased mobility, shifting social roles and market demand) for several previously marginalized groups—including ex-

---

[198] Bhatia and Goodhand (2003)
[199] USAID (2005)
[200] ibid p.16.
[201] Schafer (2002) citing Pretty (??) and Harvey (1997); Colletta andCullen (2000)
[202] Colletta and Cullen (2000)
[203] ibid
[204] cited in Schafer (2002)
[205] Colletta and Cullen (2000).
[206] McLaughlin (2006); Fraser, L. (2006)
[207] Colletta and Cullen (2000).pp.47-48.

combatants, peasants and "barefoot entrepreneurs"—to establish horizontal linkages, facilitating income generating activities.[208] A high level of horizontal cooperation in illicit and legal commercial activity can emerge as a necessity to circumvent the power of combatants.[209] Often, emerging horizontal networks in conflict-affected regions are modeled on the strong horizontal networks of conflict regimes—for example, the transnational networks linking the Taliban with Kashmir and Chechnya, or the complex relationships between the Tamil Diaspora and the LTTE.[210]

Horizontally linked traditional and informal social networks (such as kinship networks, traditional political institutions and ethnic groups) are often reinforced by or most resilient to conflict.[211] Horizontally organized local institutions such as informal clubs even proliferate in the post-conflict phase, as has been found in Sierra Leone and Guinea Bissau.[212] In the DRC, where strong linkages exist between the business community and their local communities, successful entrepreneurs generally continue to live in their native areas and invest in social infrastructure activities, as well as reinvesting profits locally through collaborative business ventures. One group of four businessmen in Kivu recently raised $4 million from 15-20 other local businesses to invest in a dam to provide energy to the local area, and are jointly lobbying for a manufacturing industrial zone to strengthen local and regional economic development—all despite the uncertainties of chronic conflict.[213]

Similarly, explicitly economically oriented horizontally linked local institutions may also prove to be resilient. In Sierra Leone, strong linkages remain among palm oil and vegetable producers.[214] In post-conflict Guinea-Bissau, sellers in the same trade have formed partnerships, in some cases pooling resources and contacts, and day workers have organized networks to share job opportunities and redistribute income.[215] In Cambodia, associational initiatives such as rice banks, funeral associations and water-users groups have continued to function after the conflict.[216] In environments where cooperatives or associations are already well-established, positively perceived and reinforced by a supportive legal framework, these entities can contribute to a local capacity for advocacy, provision of essential services, strengthening resiliency to additional shocks, contributing to long-term sustainability of recovery and reconstruction activities, and facilitating institutional linkages.[217] Cooperatives and associations can also provide the informal sector with the framework necessary to ensure (or make progress towards) social and labor standards.[218]

---

[208] Chingono (1994), Schafer (1999) and Wilson (1992) cited in Schafer (2002)
[209] Schafer (2002)
[210] Goodhand and Atkinson (2001)
[211] Harvey (1997) cited in Schafer (2002)
[212] Richards et al (2004); Boubacar-Sid et al (2007) p.33
[213] Braud (2005)
[214] ACDI/VOCA/World Bank (2007)
[215] Boubacar-Sid et al (2007) p.31.
[216] Colletta and Cullen (2000) p.29.
[217] Parnell (2001)
[218] ibid.

Conflict can also present an opportunity for horizontal linkages by destroying ineffective or predatory associations and institutions, making way for more representative and transparent entities that can respond to the needs and priorities of members and constituents. New associations can emerge in response to the specific needs of conflict-affected communities and industries. For example, the Turkish-Armenian Business Development Council has become an influential channel of communication between business people and governments and was responsible for opening the Turkish-Armenian border, for the establishment of diplomatic ties and for preparing the way for legalization of trade and business linkages[219] (see text box).

Strong associational development by marginalized groups can also contribute to economic integration and trust-building, even in the context of separatist conflict. Basque workers' and consumers' cooperatives—which have expanded as part of a 60 billion peseta ($500 million) joint venture with a Spanish investment group—have resulted in a substantial Basque-owned stake in the Spanish economy. This has resulted in shifts in both the economic and political power dynamics that contributed to the conflict.[220]

In relation to horizontal linkages in conflict-affected environments, cooperation, trust and economic benefit have been found to be mutually reinforcing, even across conflict lines. For example, multi-ethnic SMEs in Macedonia were more resilient to the effects of inter-ethnic conflict in Macedonia than single-ethnic ones, especially in service industries.[221] Research has shown that strong horizontal linkages among people on different sides of a conflict are critical to mitigating conflict in regions with a high potential for conflict, where *concrete*, *measurable economic incentives* are captured through this cooperation. A study of cities in northern India with identical balances of Hindu and Muslim populations concluded that the strongest distinguishing factor between cities where violent conflict emerged and those where it did not was the presence of business associations including both Muslim and Hindu members.[222] Thus resources need to be focused not simply on the act of bringing groups together, but on the activities that will make the business operations around which they collaborate more profitable.

GUATEMALA SUGAR GROWERS' ASSOCIATION

In Guatemala, where the sugar industry was at the center of brutal socio-economic conflict, the Sugar Grower's Association, ASAZGUA, served as a vehicle for industry development as well as responding to the immediate needs of the local communities. ASAZGUA's strategy for long-term industry competitiveness included:

- establishing new labor relations and a new technological framework for sugar production;
- developing a world-quality system for both domestic distribution and export; and
- creating an autonomous foundation, supported through sugar mill levies, to address the social concerns of the industry and its workers.

See: Valdez et al (2005) in International Alert (2005b)

SUPPORTING MARKETS

There are three main types of services needed by firms in a given value chain: financial services (savings, loans, letters of credit, micro-leasing, etc.), business services (e.g., marketing, legal advice and telecommunications) and sector-specific services (e.g., equipment supply and maintenance or handicraft design services). Sustainable services may be provided by actors within the value chain or by fee-based service providers outside of the chain. Services provided by

[219] Gultekin (2004)
[220] Parnell (2001)
[221] Srzic (2005)
[222] Varshney (2002)

actors in the chain tend to be embedded, such that the cost of the service is built into an existing commercial transaction.

CONSTRAINTS

Critical supporting services such as extension, transportation, telecommunications, machinery and equipment provision, are all compromised by conflict. Service delivery mechanisms are weakened or absent due to physical destruction, population displacement, the migration of skilled personnel, capital flight and logistical constraints. The demand for services is also reduced due to the overall stagnation of business activities. Inspection and certification services often disappear in the absence of centralized regulation. Lack of post-harvest management services has been found to have a significant impact on crop losses in eastern Afghanistan with consequent effects on profitability.[223]

Foreign exchange imbalances resulting from crippled national industries, devalued local currencies and economic sanctions often limit access to imported inputs necessary to stimulate local industries. The transportation industry is often severely affected by conflict, in turn affecting the potential competitiveness of many other industries. For example, in the Central African Republic, high transportation costs in comparison with regional competitors have been a major factor in reducing the competitiveness of the cotton industry over the past ten years.[224] Similarly, the destruction of almost 95 percent of transport units (including vehicles and trains) in Mozambique between 1982 and 1989 not only compromised access to important regional markets, but eliminated a support industry that was a major foreign income earner prior to the conflict.[225]

Financial services are constrained by extensive capital flight, deterioration in the institutional capacity of financial institutions (particularly central banks) and weak regulatory environments. Financial service providers often halt operations outside of major cities during conflict and, depending on the intensity of the conflict, may shut down altogether. Breakdowns in financial services tend to follow patterns determined by the type of conflict (see text box). Often, traditional forms of financing are undermined by conflict. For example, prior to the Rwandan genocide, the use of credit in economic exchanges was common; this has declined drastically due to decreased trust, increasing poverty and shifting values concerning money and individualism.[226] The same occurred in Guinea-Bissau with the decline of traditional rotating credit mechanisms.[227] Furthermore, even where the financial sector emerges from conflict with sufficient liquidity and free of corruption, macroeconomic and enabling environment constraints may limit lending. This has been observed of the Eritrean financial sector, where

EFFECTS OF CONFLICT ON FINANCIAL SERVICES

Guerilla insurrections—disruption of rural financial systems (e.g., Guatemala)

Conflict related to autocratic rule—cronyism in bank lending (e.g., former Yugoslavia, Zimbabwe)

Military revolts—temporary shutdowns of financial systems (e.g., Côte d'Ivoire, Guinea-Bissau)

Secessionist conflict—temporary shutdowns of financial systems (e.g., East Timor, Kosovo)

Violent ethnic conflict/ genocide—looting of banks to finance and profit from violent conflict; destruction of financial institutions (e.g., Rwanda)

Inter-state conflicts—formal financial institutions stressed but continue to function (e.g., Eritrea)

Source: Addison et al (2001)

---

223 DAI (2005)

224 Bakhache et al (2007)

225 Bruck (2001) cited in Collier et al (2003) *Breaking the Conflict Trap* p.15.

226 Colletta and Cullen (2000) p.45.

227 Boubacar-Sid (2007)

borrowing and investment by firms are extremely low despite apparent liquidity of the financial sector because of a lack of market access to justify upgrading.[228]

OPPORTUNITIES

Several examples have been documented of strong supporting services being established or maintained in the face of violent conflict. In Somalia, ICT networks have proliferated and developed as competitive industries with regional outreach. Hargeisa, Somaliland, has four competing telephone service providers offering internationally competitive rates, while Mogadishu has three.[229] Swift advances in telecommunications technology have enabled strong linkages between Somalia and the Somali Diaspora and facilitated the flow of remittances.[230] In Sri Lanka, the ICT sector was identified early by business leaders as a rallying point for private sector investment, both to drive the growth of other industries and as an opportunity for broad-based employment creation in low skill ICT exports, including secretarial and answering services and customer call centers. Industry leaders such as software exporters, venture capital firms and educational and legal institutions created an ICT cluster and developed a successful sector reform strategy.[231]

Also in Somalia, the integration of transport operations throughout the region has facilitated penetration by Somali traders into regional markets, while in Cambodia, transportation entrepreneurs facilitated new business ties between transport operators and vegetable producers.[232] In Afghanistan the transport sector has been one of the fastest sectors to develop since 2001, with small entrepreneurs launching a number of transportation businesses (some as small as one vehicle) that now cover most of the country despite the poor state of the roads.[233]

One of the strongest examples of supporting markets flourishing in the face of conflict is the informal financial services networks in Somalia and Afghanistan, which have been responsible for channeling hundreds of millions of dollars of remittances to fund private sector initiatives as well as supporting livelihoods, and which have remained flexible in the face of international controls on financial flows to these countries.[234] In Afghanistan, financial transactions conducted through the *sarafi* and *hawala* systems rely on strong trust and shared norms and practices across global networks (although this trust is selective in that the choice of *sarafi* is largely determined by family, community or extended relations).[235]

Constraints in accessing basic goods, services and inputs often drive the emergence of substantial innovation in substituting for inaccessible items, as has been the case in Bougainville, where a four-year economic blockade by the central government inspired innovation in developing new methods of powering engines using palm oil instead of petrol. Improvisation similarly occurs with service delivery mechanisms: Where critical agricultural service markets are not functioning, support provided through local social networks may serve as a means of helping farmers to re-establish or continue farming activities and access markets. This has been observed in Sierra Leone.[236]

---

[228] Cotton et al (2002)
[229] Colletta and Cullen (2000); International Alert (2005b)
[230] Maimbo (2006)
[231] Frazier (2003)
[232] Colletta and Cullen (2000)
[233] Giustozzi (2001)
[234] Fagen and Bump (2006); Maimbo (2006); Colletta and Cullen (2000); Goodhand et al (2003).
[235] Bhatia and Goodhand p. 82-83
[236] Longley (2006) p.17

Another potential service delivery mechanism is through Diaspora communities. For example, "Africa Recruit"—a joint venture program of DfID, the New Partnership for Africa's Development (NEPAD) and the Commonwealth Business Council—has been committed since 2002 to mobilizing skills and human resource capacity for African development through a network of 1,500 African Diaspora organizations including national, professional and interest groups, as well as a further 2,400 affiliated human resource groups.[237] Africa Recruit was responsible for helping the Sierra Leonean government establish the Senior Executive Service Scheme in 2005 to encourage qualified and experienced Sierra Leoneans at home and abroad to make their services available and to contribute to the national development effort.[238] In other regions, business development associations or international organizations have served this role. The International Executive Service Corps' "Geekcorps" has piloted databases for matching members of the global Lebanese Diaspora and the North America Sudanese Diaspora with volunteer assignments in Lebanon and Southern Sudan, respectively.[239]

TYPES OF UPGRADING

- ***Process:*** increased production efficiency, reducing unit costs
- ***Product:*** improved product quality, increasing value to consumers
- ***Functional:*** firm entry into a new level of the value chain
- ***Channel:*** firm entry into a pathway leading to a new end market
- ***Intersectoral (inter-chain):*** firm entry into new value chain based on a different product

Source: Dunn E. et al (2006)

UPGRADING

Upgrading refers to the ability of a firm to innovate and adapt to changing market conditions. There are several ways in which a firm can upgrade (see text box) to maintain or increase its competitiveness. In order to upgrade, firms need access to capital, technology and information.

CONSTRAINTS

With the dissolution of vertical linkages and shifting trends in end market dynamics, firms are most often unable to understand and respond to the demands of former or prospective consumers. Without consistent, reliable market information, producers are unable to determine fair values and prices for their products. For example, the protracted Israeli embargo has meant that Palestinian agricultural producers and even intermediaries are unable to deal directly with end buyers to capture information about consumer demands and trends and to negotiate appropriate prices. Their reliance on Israeli intermediaries who must then train Palestinian counterparts who are able to work in Gaza and the West Bank lengthens the information transfer process and decreases the incentive for either Palestinian Diaspora or other foreign investment in the sector, and leads to low levels of product innovation.[240]

Risk aversion is a common response to real or perceived vulnerability resulting from conflict, and risk aversion can be a powerful disincentive for upgrading. Few Palestinian firms invest in upgrading machinery and only about one quarter has conducted any kind of technical training for their workers. As a result, most operate at only about 50 percent capacity and only a small fraction of firms comply with any international quality standards. [241] The loss or destruction of physical and financial assets also hinders upgrading as firms are unable to access the infrastructure and inputs required to expand and improve value chain functioning, productivity and profitability. Similarly, human resources, essential for understanding and responding to upgrading requirements for competitiveness, are compromised by the direct effects of war—the death or migration of skilled populations—and by the indirect and long-term effects of diverting government budgets away from education and health towards military spending. The

---

[237] http://www.africarecruit.com/downloads/About percent20AfricaRecruit percent20250707.pdf
[238] http://africadiaspora.com/sld/feedback.htm
[239] http://www.geekcorps.org/
[240] World Bank (2007) p.12
[241] World Bank (2007)

human resource base of Eritrea has been compromised both by migration of highly skilled individuals and by the military mobilization of white collar workers (estimated at 15 percent in 2001) as well as the protracted conscription and delayed demobilization of these workers due to the perceived threat of continued conflict with Ethiopia, all contributing to a situation in which labor is scarce, under-skilled and expensive.[242]

In most post-conflict environments, donor-funded economic interventions focus on recovery and reconstruction, implying a return to the pre-conflict status quo. For many conflicts, however, particularly protracted ones, competitiveness requires upgrading to or beyond the status of competitors, many of whom may have been constantly driving upgrading while the conflict-affected country was stagnating or declining, as has been discussed previously. Only recently have relief and recovery initiatives been informed by the concept of linking technical support and assistance to the upgrading needs of emerging industries. The traditional model of a rapid assessment followed by intensive transfer of technical and financial resources into certain sectors (often ones unable to absorb the infusion of capital and skills) has often resulted in unsustainable employment and lost opportunities for strengthening high-potential value chains. Initiatives based on developing local crafts or industries—often basket-weaving or other crafts for women and carpentry for men—without analysis of end market potential have been numerous and increasingly acknowledged by the relief community as incapable of meeting the needs of recovering and expanding local and national economies.[243]

OPPORTUNITIES

Despite these constraints, the radical structural and dynamic shifts that characterize post-conflict economies may facilitate upgrading. Conflict has the potential to precipitate technological innovation, and the widespread destruction of archaic facilities and equipment can provide an opportunity to introduce more efficient or higher-quality replacements. Conflict may reduce the power of dominant market actors and lead to the emergence of a more supportive business enabling environment. People displaced as a result of conflict may be exposed to technologies that they are able to copy upon their return. Diaspora communities may also serve as a conduit of information about opportunities for and the potential benefits of upgrading. Even human capital can be increased when a society is forced to invest in new models of education and training to replace human resources lost as a result of conflict.[244] For example, donor-funded interventions in the Colombian coffee industry and the Afghan fruit and nut industry aim to create new market linkages to help producers understand and respond to market demand.[245] The ILO has developed a range of skills training tools and approaches aimed at conflict-affected environments, including formal institution-based training and enterprise-based training, and an integrated approach combining skills development, small business training, financial support and labor-based technology based on the needs of local industries.[246] Initiatives to channel Diaspora resources into transitional and recovering economies (discussed above) are also a major source of upgrading potential.

C. ECONOMIC CONSEQUENCES OF RELIEF INTERVENTIONS

The humanitarian aid community has become increasingly aware of the complexity of its role in responding to and affecting conflict and post-conflict situations, in particular the unintended negative economic, social and conflict-related implications that can emerge from traditional relief approaches. A wave of scholarship in the 1990s attacked

---

[242] Cotton et al (2002)

[243] SEEP *Post-Crisis Economic Recovery Workshop*, September 27-28 2007

[244] Much of the literature on possible positive impacts of conflict has been dismissed as irrelevant to the characteristics of modern conflict situations, and little recent work looks further into the possibility of positive economic consequences. An exception is Kang and Meernik (2005) who model the positive ('renewal') and negative ('ruin') consequences of civil wars on economies.

[245] Castillo (2005); http://www.acdivocacolombianspecialtycoffee.org/

[246] Barcia and Date-Bah (2003)

the ways in which humanitarian aid had become integrated with conflict dynamics and other residual negative impacts of crisis situations, especially as emergencies became more complex in nature. While the emerging brand of crises often combined political and economic factors along with conflict dynamics, the humanitarian apparatus had failed to distinguish approaches for complex emergencies from those originally designed for natural disasters.[247]

Further, the trend for relief funds to be channeled through international NGOs affiliated with specific donor countries rather than through multilateral agencies was argued to have turned humanitarian assistance into "an arm of donor countries' foreign policies," translating into increased competition, lack of coordination and minimal monitoring and evaluation in the field.[248]

The structures of humanitarian aid as they have emerged over the last 40 years have had major implications for governance and the enabling environment as well as the structures and dynamics involved in value chain development. Traditional relief approaches eroded local sovereignty by alleviating the responsibility of governments to create effective economic policies and provide basic service to their constituents, thus entangling NGOs in issues of local governance and resource allocation while often supporting weak or even predatory governments.[249] For example, the UN and NGOs often employ ex-military personnel as security advisors, and compliance with demands of "protection rents" or expensive transport arrangements due to exaggerated insecurity has been observed widely in Somalia and Mozambique.[250]

Much of the criticism of these relief structures can be traced to the UN's model of negotiated access, which became the standard after being initiated in South Sudan, Ethiopia and Angola in the late 1980s. Negotiated access involved flexible contracting mechanisms allowing aid distributors to gain approval from warring parties for the movement of neutral humanitarian aid, often across borders. This led to formalized operational plans between warring parties and aid distributors, as seen in Bosnia and South Sudan in the early 1990s. [251] As the value of relief and food aid skyrocketed from the 1980s to the 1990s,[252] this structure resulted in humanitarian assistance becoming closely integrated with structures of violence, and the control and manipulation of relief supplies becoming a major force in local economies and power dynamics.[253]

The effects of relief structures on governance and economic rights are illustrated clearly in the case of Southern Sudan in the 1980s. Relief approaches were characterized by a lack of understanding of the socio-political and conflict dynamics at the root of the imminent famine as well as of local coping mechanisms; acceptance of the government's role in perpetuating the conflict as well as its definitions of which areas of the country were accessible to aid, further reinforcing economic marginalization and conflict; and failure to ensure that the relief was received by the intended recipients (aid was being diverted to further fuel conflict actors).[254] Patterns of government-imposed deprivation from relief assistance served as part of the government's attempts to depopulate parts of the Bahr el Ghazal and Upper Nile areas, and were reinforced by the provision of relief to those who were displaced towards Ethiopia.[255]

Similarly, in Mozambique at the end of the 1980s and early 1990s, international aid facilitated expansion of government military control in the north of the country by making it possible for large populations to live in government-held areas which would have otherwise lacked the necessary resources and services, thus contributing to

---

[247] Duffield (1994a)
[248] Davies (1997)
[249] Davies (1997)
[250] Davies (1997); Keen and Wilson (1994) p.215.
[251] ibid.
[252] ibid; Davies (1997)
[253] Duffield (1994a)
[254] Keen (2004)
[255] Keen and Wilson (2004) p. 212

the establishment of government legitimacy.[256]

Relief interventions, when channeled to particular areas of a country (where other areas are either neglected or at a different phase of development), can also result in increased regional imbalances that feed negative dynamics of conflict. This occurred in Sri Lanka, where humanitarian aid has focused on the northeast part of the country while development aid has targeted the south, further straining national cohesion.[257]

Other impacts of international relief efforts on the enabling environment are more concrete:

- The monetary impact of a rapid influx of hard currency in relation to the circulation of local currency: For example, as a result of UN operations in Cambodia the proportion of US dollars to local riels reached 2:1;[258] and the economy remains tied to the dollar, with dollars and riels being equally used for daily transactions.

- Inflation caused by the rapid influx of hard cash and large numbers of international workers with higher salaries and standards of living.[259]

- Exchange rate effects as a result of international agencies using alternative currencies for salaries or the purchase of relief supplies (such as deutschmarks in the former Yugoslavia). This can create dual economies and the loss of national control over monetary policy and broader economic management, resulting in exchange rates that reduce the competitiveness of the export sector.[260]

- Increased recurrent costs to the national budget when high profile projects are under-financed for the long-term. Focus on the informal sector for initial economic recovery may limit official revenue sources needed to bolster nascent governments.[261]

- Labor market implications, principally the internal brain drain from the public and private sectors caused by the higher salaries and status of NGOs.[262]

Traditional approaches to relief have also been shown to have drastic effects on local market channels, subverting traditional coping mechanisms and increasing vulnerability. The urgency of need immediately following conflict often results in highly subsidized, direct interventions by relief agencies outside of existing market structures and relationships. Such interventions may form a parallel and discreet market channel which assumes the absence of—and therefore negates—existing market channels. This can result in price distortions, further erode the customer base of local industries and destroy private-sector incentives to deliver the products and services needed by beneficiaries of relief programs. Conversely, the trend by donors to require local purchase of food aid when possible has in some cases resulted in speculative deals by local merchants, commercial farmers and transporters.[263]

In the 1980s and early 1990s relief convoys from Uganda to South Sudan were regularly subverted, with relief supplies replaced by consumer goods such as food, clothing and coffee bought with dollars (obtained through illegal remittances), which were in high demand in the Uganda and Zaire parallel market to buy other imported goods. The implications of this substitution were reinforced by the SPLA blockade that drove up the prices of basic foods and left many residents of Juba more vulnerable than the displaced population that was the intended recipient of the relief

---

256 Keen and Wilson (2004) pp.212-213.
257 Goodhand et al (2000); Goodhand (2001b); Palmer (2005)
258 Davies (1997)
259 ibid.
260 ibid; Keen and Wilson (1994) p.215.
261 Davies (1997)
262 ibid.
263 ibid p.62

supplies.[264]

The diversion of food aid to feed troops and militia has been well documented as far back as Somalia in the 1970s and throughout the region in Ethiopia and Southern Sudan. Even the generally accepted 5 percent "leakage" of food aid in Ethiopia would have fed the equivalent of the entire armed forces in the late 1980s, with obvious consequences for political control. The state's denial of food aid to civilians in contested areas of the country was conducted through a range of manipulations by the government as well as donor ignorance of many of the dynamics involved in the complex emergency. [265]

While laudable progress has been made by humanitarian agencies consciously avoiding negative social and economic impact, some legitimate relief priorities tend to work against longer-term sustainable growth objectives. Relief programs by their nature target resources to the victims of conflict or disaster—those who have lost assets and the means of livelihood. Interventions seek to reach the largest number of vulnerable or other target beneficiaries. Value chain development programs, on the other hand, seek to identify and leverage those actors with access to resources and markets and with the incentives to innovate to improve the performance of a product, service, market or industry. This can lead to a tension between "relief" and "development" practitioners and uncoordinated and competing donor-funded interventions.

[264] Duffield (1994b) pp.56-57.

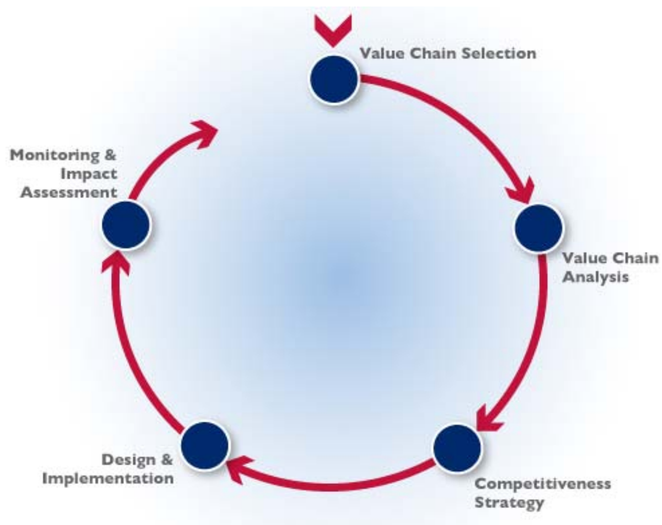
[265] Duffield (1994b) pp.61-62

IV. IMPLICATIONS FOR THE PROJECT CYCLE

Using the existing literature to understand the consequences of conflict on value chain functions and actors is the first step in adapting the value chain approach to meet the complex needs of conflict-affected environments. This section draws on the literature to briefly describe the value chain development project cycle and proposes methods for applying the value chain approach throughout the various relief and development phases.

A. THE PROJECT CYCLE

Figure 3: USAID/MD's Value Chain Project Cycle



The project cycle refers to the process of design, implementation, monitoring and evaluation for any intervention or set of interventions with a finite timeframe. Many donors and agencies have developed their own approaches to the entire project cycle or to components of it, and some have adapted these approaches specifically to conflict-affected environments.[266] USAID's Microenterprise Development office has funded research into the dynamics of the project cycle, arguing that effective projects are not linear or unidirectional; rather, they should operate through iterative application of the value chain development principles, increasingly refining the focus on activities that advance the project strategy.[267] Applying the principles throughout the project cycle can reduce the vulnerability of projects to the chaotic circumstances of conflict-environments while providing a flexible but strategically structured approach to implementation. It can also serve as a framework for synthesizing the analysis, design and implementation phases of relief and development strategies.

Many tools address elements of disrupted economic systems and their affected populations, but do not take into account the entire system, and are therefore limited in their ability to navigate conflict environments to achieve sustainable growth. With its inclusion of the business enabling environment, the economic and non-economic incentives of stakeholders, benefit distributions and issues of trust, the value chain approach has a high degree of relevance for conflict-affected environments. Therefore, with funding from USAID's Microenterprise Development office, ACDI/VOCA is conducting a comparative analysis of 12 specially commissioned and two pre-existing case studies of value chain development initiatives in conflict-affected environments to see how, in practice, the approach can be used or adapted.[268]

---

266 For example, GTZ (2001a), UNDG/UNDP/World Bank (2004), International Alert (2005c)
267 www.microlinks.org/valuechains
268 Synthesis report by Dr. Joan Parker to be published on www.microlinks.org/conflict in summer 2008.

B. VALUE CHAIN SELECTION

1. CONFLICT ANALYSIS

The first phase in the value chain project cycle is industry or value chain selection, which is informed by three elements: potential for competitiveness, anticipated socio-economic impact and anticipated impact on cross-cutting issues.[269] This is then followed by a thorough value chain analysis. In conflict-affected environments, it is essential that both value chain selection and value chain analysis are informed by a conflict assessment that identifies the causes and drivers of conflict and gauges the impact of conflict on key social and economic structures and dynamics, anticipating the impact of potential interventions on conflict dynamics.

Existing conflict analysis tools can be broken down into two categories. *Conflict assessment tools* are aimed at helping the private sector (mostly multinational companies), donors and NGOs to understand conflict dynamics on the local, national, regional and global levels, and to assess the impact of conflict dynamics on their operations in order to design effective and appropriate approaches. *Conflict impact assessment tools* are designed to help the private sector, donors and NGOs to assess the potential impact of their operations or activities on conflict in order to mitigate unintended negative impact. Often these two levels of analysis are merged or integrated in order to cover both the design and implementation phases of activities within conflict-affected environments. Conflict analysis contributes throughout the project or business cycle by monitoring the interaction of and maintaining a sensitivity between the project and the context within which it operates.[270]

Many bilateral and multi-lateral donors and NGOs have developed conflict assessment tools[271] (several of which are part of broader program design guides[272]). Although providing a useful and coherent process from analysis to design, many of these tools result in conflict factors driving program design rather than primarily, or equally, economic growth and competitiveness factors.

CONFLICT ANALYSIS TOOLS COVER MUCH IF NOT ALL OF THE FOLLOWING*

- Causes/drivers of conflict including social, ethnic, political, economic, environmental, external
- Incentives for conflict actors/parties to end, continue or re-start the conflict
- Institutional capacity to manage the conflict or post-conflict situation, in terms of regime legitimacy, rule of law, economic governance
- Effects of the conflict (social, economic, political, natural)
- Regional and international aspects of the conflict (spillover effects, foreign support, international sanctions)
- Dynamics that may change the direction of the conflict/post-conflict situation
- Vulnerability to resurgence of conflict (political, economic, natural)
- Implications for programming

*sources: *Bush* (1998)*; DFID* (2006)*; GTZ* (2001b)*; UNDG/ECHA* (2004)*; USAID* (2005)*; World Bank* Conflict Analysis Framework (2005)*;* GTZ (2001a), UNDG/UNDP/World Bank (2004), International Alert (2005c)

---

[269] www.microlinks.org/ev_en.php?ID=9857_201&ID2=DO_TOPIC
[270] International Alert (2005c) Chapter 1. p.2
[271] International Alert provides a useful summary of conflict analyses in chapter two of their resource pack *Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding.* International Alert (2005c) Chapter 1.
[272] GTZ (2001a), UNDG/UNDP/World Bank (2004), International Alert (2005c)

Most conflict assessment tools attempting to address economic factors tend to focus either at the household level or on macro-economic level impact; or they focus on cross-cutting indicators such as unemployment and infrastructure damage. Although some ask which industries were strong prior to the conflict or which were hardest hit, none takes a systemic look at these industries to assess their potential in order to inform the industry selection phase of the project design. Further, most of these tools are focused on negative impacts—i.e., what has been destroyed or weakened—rather than the critical question of what structures and capital remains. While much of the literature recognizes the need to incorporate what is referred to as "asset-based" planning into interventions, there is little discussion beyond PRA-style assessments of how to identify assets.

Just as conflict analysis practitioners have developed approaches to integrating conflict analysis information into standard initial rapid needs assessments in post-crisis environments, the value chain approach requires a basic level of value chain-related information integrated into these initial assessments to serve as a foundation for program design and implementation. International Alert has developed key "entry points" for integrating conflict analysis into initial needs assessments in the field[273] and is similarly developing guidelines for integrating conflict analysis into value chain analysis.[274]

Coordinated or integrated analysis of conflict and value chains that may be targeted for development is important because resources are scarcer in conflict-affected environments, constraints to accessing communities are more pronounced, and the potential for resurgence of conflict raises stakes even higher. GTZ's diagnostic tool[275] for coordination with other parties on conflict impact assessments—which accounts for inclusiveness, transparency and security issues—may be used to collectively minimize any inadvertent consequences of conflict while maximizing resources.

2. ADAPTING VALUE CHAIN SELECTION TO CONFLICT-AFFECTED ENVIRONMENTS

USAID's value chain approach proposes three factors in the selection of industry or value chain selection in stable emerging economies: i) potential for competitiveness; ii) anticipated socio-economic impact; and iii) cross-cutting issues (e.g., gender, health, environment, human rights, security, etc.).

In post-conflict environments, the context of conflict needs to be incorporated into each of these factors as it:

- *impacts the potential for industry competitiveness.* The impact of conflict substantially undermines the potential for competitiveness of almost any sector or industry.

- *affects the nature and depth of cross-cutting issues.* Conflict intensifies existing cross-cutting concerns and often introduces new ones as traditional social structures are thrown into imbalance. Cross-cutting issues such as health, education, preservation of traditional social structures, security and human rights, also help to determine levels of social capital, and therefore help to define the limits of competitiveness of any industry. These issues need to be identified and prioritized as part of conflict/post-conflict assessment and addressed in industry selection and project design.

- *is both a direct and indirect target for impact.* Conflict both shapes the possibilities for general socio-economic impact as well as constitutes its own category of potential impact in terms of conflict mitigation or transformation through strengthened livelihoods security, employment of vulnerable and conflict-prone groups, income redistribution and rebuilding trust through economic participation. *Short-term impact* will

---

273 International Alert (2005c) , chapter 1 p7; see also Annex C
274 International Alert's guidelines for the development of an integrated analytical tool will be published on www.microlinks.org in 2008.
275 Source: GTZ (2001b) pp.34-37, GTZ (2001b) pp.34-37 ; see also Annex C

contribute to minimizing economic drivers and triggers of conflict and to building the foundations of industry competitiveness; *long-term impact* will be realized by achieving competitiveness in targeted industries.[276]

Assessing potential for competitiveness. hile many competitiveness indicators are more relevant to high-value goods and services rather than lower-value products such as subsistence crops, which may be more appropriate in post-conflict countries,[277] a few well chosen indicators can be sufficient to assess the potential for competitiveness—for example, the current market size and share, comparative efficiency (as measured by price compared to competitors' prices) and perceived quality (as viewed by end-market buyers). Analysis of the potential of pre-existing industries is the first step in the process of building on pre-existing market structures. Often national pride and international recognition remain attached to specific industries or products, making local stakeholders eager to commit to revitalizing them. Unless the conflict lasts for a generation or more, there is also likely to be a relevant skills base, although this will generally require upgrading. In some cases, some form of industry leadership may still exist, or may emerge in response to perceived opportunities.

The next step in selecting potentially competitive industries is to look at four categories of criteria, which are relatively easy to measure even in conflict-affected environments as most of this information can be obtained through observation, or structured or unstructured interviews. These categories include the following:

- *End markets demand*—for currently available or easily upgraded products.
- *Industry leadership*—are their identified catalysts for industry growth/upgrading and coordination among lead firms?
- *Skills base*—do the necessary skill sets exist and are they currently functioning within the targeted value chain? If not, can the skill base be developed/expanded through targeted interventions relatively quickly?
- *Infrastructure requirements*—What is the status of local, regional and firm-level infrastructure necessary for the value chain to function? What is required to repair infrastructure to necessary levels?

Assessing socio-economic impact. Assessing socio-economic impact is often closely related to assessing conflict impact, as socio-economic factors constitute major drivers of conflict. In addition, many international and local organizations have developed or adapted their own socio-economic impact assessment tools, which can be tailored.[278] The SEEP-AIMS manual *Learning from Clients Assessment Tools for Microfinance Practitioners,*[279] for example, is designed for microfinance practitioners but can be adapted to assess the past and potential socio-economic impact of targeted industries.[280] Some general lessons about socio-economic impacts of strengthening different types of value chains are highly relevant to this discussion. In primary commodity value chains, for example, where international traders drive value chain governance, upgrading efforts targeted at a few larger-scale producers have resulted in the marginalization of many smaller firms, increasing inequality and creating conditions conducive to a resurgence of conflict.[281]

Assessing cross-cutting themes. Specific cross-cutting themes to be targeted should be identified at the outset of the industry selection process. A useful and comprehensive survey of major cross-cutting themes in post-conflict environments was produced by GTZ for the United Nations and World Bank.[282] This survey is comprehensive and

---

[276] http://www.microlinks.org/ev_en.php?ID=9857_201&ID2=DO_TOPIC

[277] Nourse et al (2006)

[278] For a slightly outdated summary of several of these tools see Verhagen, K.(2001) *Overview of Conventional and New Approaches toward Impact Assessment* http://www.intercooperation.ch/finance/themes/2002/impact-assessment-verhagen.pdf

[279]Nelson (2001) http://www.bwtp.org/arcm/mfdm/Web percent20Resources/Advanced percent20MF percent20Resources/Learning percent20from percent20Clients percent20- percent20Assessment percent20tools percent202001 percent20(SEEP-AIMS).pdf

[280] Nelson (2001), De Luca (2003); see also Annex C

[281] USAID 2005 p.11

[282] UN/WB (2004) GTZ-produced Practical Guide to Multilateral Needs Assessments in Post-Conflict Situation Annex 27: Cross-cutting Checklists: Gender, Human Rights, Environment, Security.

requires adaptation, based on targeted themes, time and resources available. Cross-cutting themes are often determined by donors or host governments based on prevalent social issues within the targeted country, such as combating high rates of HIV/AIDS or other public health concerns, child labor, education or gender inequity. They may also include the preservation of traditional social or cultural structures or national, regional or international security and human rights. Where cross-cutting issues are not pre-determined, they should be chosen by practitioners through a participatory assessment process.

Assessing conflict impact. There are several available tools for assessing the potential impact of business activity on conflict, as discussed above. Most of these are geared towards large multi-national companies, particularly within the extractive sector, and therefore are sector-specific and not ideal for value chains likely to be targeted for development by relief and development practitioners. However, several tools can be employed or adapted to the sector selection phase which have been adapted and consolidated in the text box at right.

CONFLICT-SENSITIVE SECTORAL ANALYSIS*

- How is the sector related to the wider conflict?
- Does the sector figure in peace negotiations? What is the position of the conflict parties?
- Are there significant grievances associated with the sector (e.g., inequality, discrimination)?
- Does the sector provide opportunities for "greed" (e.g., illegal economic activities, corruption)
- What interests would be affected by sectoral reforms?
- Does the sector offer opportunities to promote common interests between divided groups or communities?
- Does the sector contain important capacities (e.g., business groups, professional networks, media) that can be harnessed for the peace process?

**From UN/WB (2004) Practical Guide to Multilateral Needs Assessments in*

3. WEIGHTING VALUE CHAIN SELECTION CRITERIA

As in any sector selection process, different weight will be given to each of the three factors discussed above, depending on the specific goals of the proposed project. For most interventions applying the value chain approach in stable emerging economies, competitiveness potential is prioritized since only competitive industries are sustainable over the longer term. In post-conflict environments, many of the elements determining potential for competitiveness will have been severely compromised by the conflict.[283] Therefore, competitiveness is often viewed as a longer-term goal. The immediate priority in selecting target industries or sectors in post-conflict environments may be impact on conflict-transformation and security, employment generation or restoration of basic services; however, in order for interventions to be sustainable, target industries must have potential for growth through upgrading as the enabling environment improves. Sector selection, then, will be balanced between the immediate priority of reducing the drivers of conflict and contributing to sustainable peace and security, and the sustainability criteria to build a foundation for competitive industries through a focus on industries with strong market potential.

Value chain development projects in post-conflict environments should identify short-, medium- and long-term goals and objectives. Even if a donor or implementing agency will not be responsible for both the short- and longer-term programming, it is highly desirable to coordinate with other agencies and national planning bodies to ensure that short-term goals are built into longer-term strategies. In assessing the short- and long-term potential of sectors or industries, consideration should be given to how their development will contribute to:

- changes in access to resources (economic, social, information);
- shifts in governance structures (force, legitimacy, authority);

[283] See for example http://www.valuebasedmanagement.net/methods_porter_diamond_model.html

- creation or exacerbation of socio-economic tensions;
- changes in the material basis of economic growth or food security; and
- exacerbation of conflict by challenging content of or control over existing political, economic or social systems.[284]

C. VALUE CHAIN ANALYSIS

Value chain analysis is one of many assessment tools already being applied in post-conflict situations.[285] Yet the time and resource constraints in post-conflict environments tend to test the stakeholders' patience with assessments and push for quick results. Therefore, streamlining assessment tools, maximizing coordination and efficiencies with other agencies and assessments, and building on data collected during the conflict analysis and sector selection stage are key to efficiency in this phase.

The value chain approach serves as a framework to compare the pre- and post-conflict economy, helping to identify points where market structures still exist and can be salvaged with the right interventions and points where market structures are beyond repair and need to be rebuilt. A first step in value chain analysis is to identify which firms were engaged in the various activities and transactions that brought the product or service from conception to final markets. Value chain analysis of the current status of the industry will reveal which of these firms are still in existence, how their activities and functions have changed as a result of the conflict, and their current location, capital base, turnover, etc.[286] It will also help reveal how market channels have been affected by conflict—including the demands of local, regional and global end markets and the structural constraints to responding to these demands.

Compiling a map of the pre-conflict value chain and comparing it to the post-conflict version of the same map will help to identify those factors of competitiveness that have weakened as a result of the conflict (or the passage of time), and pre-conflict advantages and opportunities that are still relevant. This picture can inform the design of interventions to build upon any remaining aspects of potentially competitive previous market activity, to minimize market distortions caused by relief and reconstruction, and to accelerate the pace of market recovery, employment generation and sustainable economic growth.

Comparative pre- and post-conflict value chain analysis can help to identify opportunities for upgrading[287] specifically related to the impact of the conflict, such as the following:

- channeling entrepreneurial spirit generated by conflict into economic activities to stimulate upgrading
- building upon increased innovation in response to the destruction of a skilled workforce, including new skills training and expanding economic roles for previously marginalized groups such as women
- capitalizing on the potential role of Diaspora communities for infusions of capital and technical capacity
- introducing technological innovation to replace outdated technologies and facilities that were destroyed
- providing incentive for firms to engage in functional upgrading to fill vertical integration gaps left by military or state entrepreneurs[288]

---

[284] Adapted from Bush's (1998) *Peace and Conflict Analysis* post-project impact considerations

[285] There a range of multilateral assessments being applied from the stages of open conflict through post-conflict transition to development. A cursory look shows seven discrete tools just from the World Bank and UN agencies, not including tools developed by specific NGOs. (UNDG/UNDP/World Bank 2006).

[286] For example, Bhatia and Goodhand's (2003) assessment of the Afghan carpet value chain; Jackson's (2003) analysis of the kivus value chain in the DRC, and Evans' (2003) assessment of the timber, cashew and cannabis value chains in Casamance all follow similar methodologies. See Collinson (2003).

[287] For a thorough discussion on the principles of upgrading, see Dunn (2006)

[288] ibid.

- supporting pre-existing associations and cooperatives, where these entities have been inclusive or not involved with conflict[289]
- building on momentum for policy and regulatory reform to support key value chains and stimulate investment
- identifying and utilizing alternative, informal institutions that have emerged in response to the breakdown of formal institutions during the conflict, such as *hawala* money exchange systems in Afghanistan and Somalia[290]

Where levels of national capacity and stability are low, analysis may have to rely more on secondary data collection and consultations in the capital or other relatively safe cities or with Diaspora representatives. Secondary data may also be required when many key players have migrated or been displaced or killed, leading to a loss of information.[291] Where levels of national capacity and security are fairly high, national participation can be maximized and data collection can include field work, small-scale validation workshops and larger-scale stakeholder workshops.[292] Where resources are limited and coordination is high, value chain information can be compiled by integrating questions about previous and current economic activity into standard needs assessments of communities targeted, for assistance, or into other assessments that relief agencies may already be employing, such as a broader political economy assessment,[293] or livelihoods or asset-based programming assessments.

The extent to which such coordination is possible depends on the capacity of players, the scale of the immediate needs, organizational mandates and the realities of conditions on the ground. For example, recommendations that agencies registering refugees and IDPs should record the skills, employment history and type of work sought as part of their intake or registration process[294] may not always be feasible. However, by streamlining value chain, conflict and community/beneficiary assessments and collaborating to maximize outreach and data collection, the time and resources involved in conducting value chain analysis can be minimized.

Parallels between several of the assessment tools should be exploited to facilitate overlap between these surveys and value chain analysis. For example, *conflict mapping* identifies and visually depicts the linkages and relationships between conflict actors and factors, just as *value chain mapping* identifies and visually depicts the linkages and relationships between economic actors and factors, using transactions as a point of reference. Mapping shows that the key elements in guiding the trajectory of a conflict often have substantial overlap with those guiding the trajectory of value chain development; for example, coherent and enforceable rules and meta-rules, the claims of different actors, and the capacity and legitimacy of intermediaries.[295] Other conflict assessment tools such as *stakeholder analysis*, *needs/interests/positions analysis*, *vulnerability analysis* and *capacities analysis* also parallel much of the information that value chain analysis attempts to capture, and could be tailored to collect relevant economic information. International Alert is currently developing a paper on integrating conflict tools and learning into value chain analysis and interventions.[296]

D. DEVELOPING A COMPETITIVENESS STRATEGY

In the next phase of the value chain development project cycle, information from the value chain analysis is presented to private- and public-sector industry stakeholders. These stakeholders are assisted through a process of identifying key end market opportunities and constraints to accessing these markets, and of defining an action plan for

---

289 see Parnell (2001) on assessing the role of cooperatives in post-conflict situations
290 International Alert (2005b); Longley et al (2006) p.39; Bhatia and Goodhand (2003)
291 USAID (2007)
292 UNDG/UNDP/World Bank (2006)
293 for example Le Billon (2000)
294 Krishnamurty (2003) p.63
295 Barron et al (2004)
296 International Alert's guidelines for the development of an integrated analytical tool will be published on www.microlinks.org in 2008.

overcoming these constraints.[297] As discussed in previous sections of this literature review, the immediate post-conflict environment often offers an important window of opportunity with regards to engaging the private and public sectors. For example, community-driven models such as USAID's Community Action Projects[298] and the World Bank's Community-Driven Reconstruction have proved effective at using community boards, including private-sector representatives, to make decisions on resource allocation for local government and business initiatives. Such models have become widely adopted by international and local NGOs.[299] Simultaneously, however, conflict introduces obstacles to effective engagement, as discussed below.

Selecting private- and public-sector representatives. Care needs to be taken that groups introduced by development practitioners are representative of all ethnic or kinship groups and do not undermine existing local entities. In post-conflict Sierra Leone, while local clubs remained and even multiplied in some areas, acting as relatively strong rural institutions with membership cutting across divides between leading lineages, commoners and strangers, village development committees established by humanitarian organizations tended to be dominated by leading lineages, and are argued to have reinforced divisions between rural elites and the rest of the poor.[300]

The value chain approach often seeks out industry *catalysts*—firms with the incentives, skills and resources to drive a competitiveness strategy. In conflict-affected environments, catalysts should be selected based not only on their incentives for driving competitiveness, but also their commitment to the transition away from conflict. Selection of catalysts must also take into account their relationship to conflict dynamics, and ensure that they are being provided with a platform to contribute to the strengthening of conflict drivers.

Actors engaged as *intermediaries* prior to the conflict, or those who have gained trust and respect during or after the conflict, are well placed to facilitate linkages, agreements and collaboration. While direct linkages between firms may be more efficient in terms of the functioning of the value chain, intermediaries may need to remain in place for some time until mistrust between firms can be overcome.

Developing mutually beneficial ("win-win") relationships. Stakeholders in conflict-affected environments are often conditioned to view opportunities as "win-lose" scenarios. While this is the case in many industries in which individual firms view competing with and defeating their neighboring enterprises as the only strategy for success, it is more pronounced in conflict-affected environments. By adopting "win-lose" strategies, stakeholders stunt the development of the industry and thereby limit the benefits available to all participants in the chain. Several approaches have been drawn out of the literature for replacing "win-lose" with "win-win" strategies. First, the industry selection phase contributes to a "win-win" strategy as mutually beneficial relationships are more likely in industries that are either growing rapidly (ensuring sufficient benefits to be shared by stakeholders) or are facing considerable uncertainties or risk (requiring stakeholders to cooperate in order to overcome these obstacles). Second, facilitating "win-win" relationships requires an in-depth understanding of the structures and dynamics of the targeted value chains and the way in which resource-poor enterprises, communities and individuals are engaged in these chains. Value chain analysis should provide this information.

---

[297] Correa, M. and Campbell, R., *Using the Value Chain Approach to Design a Competitiveness Strategy—AMAP Briefing Paper*, USAID (forthcoming)
[298] For information on CAP Iraq: http://www.usaid.gov/iraq/accomplishments/cap.html
[299] Cliffe at al (2003); Goovaerts et al (2005); USAID (2007)
[300] Richards et al (2004)

Industry-specific workshops have proved successful as a forum for stakeholders to discuss constraints and opportunities, develop a shared vision of competitiveness and understand what each stakeholder has to offer in terms of capabilities, capacity and capital. How such meetings are structured varies—from a series of one-off meetings with specific groups of actors to "whole system in a room" methodologies that seek to bring representatives together from the entire industry—the private sector, government bodies, donors and civil society.[301]

COMMON PITFALLS IN FACILITATING AN INDUSTRY DEVELOPMENT PLAN

- Failure to include key stakeholder groups
- Failure to ensure that the vision is private sector-driven
- Lack of consensus about industry vision
- Overly ambitious implementation plans
- Inattention to quick results to reinforce critical inter-firm coordination
- NGO/contractor directly providing services with inadequate attention to exit strategy
- Failure to tap power of end market catalysts
- Underutilization of market incentives
- Lack of frequent monitoring of implementation pathways
- Lack of attention to potential implications of residual conflict dynamics on value chain development strategy, or vice versa

Source: Kula, O., Jeanne Downing and Michael Field (2006) Globalization and the Small Firm—An Industry Value Chain Approach to Economic Growth and Poverty Reduction

Facilitating the trust-building process. Because trust in post-conflict environments is thought of in the context of conflict dynamics, the specific element of inter-firm trust tends to be overlooked. A category of programming has emerged that focuses specifically on rebuilding trust between conflict actors through economic engagement, prioritizing cooperation among ethnic or political groups through programming that integrates opportunities for dialogue, training in communication, and economic cooperation initiatives. These economic cooperation initiatives include development of multi-ethnic associations,[302] "dialogue rich development,"[303] and similar fora established in Cyprus, Sri Lanka, the South Caucasus and Northern Ireland with the aim of providing an arena for economically beneficial inter-ethnic cooperation while providing a platform for contentious security and political concerns. These activities have in some cases prioritized and designed economic interventions around interaction and dialogue for conflict resolution, rather than letting the needs of the value chain in relation to end market demand drive the design and content of dialogue. In other cases, stakeholders have rejected these types of interventions and practitioners have recognized the potential for such interventions to backfire if communities are not ready to engage in cooperation and dialogue.[304] However, in a few cases, the needs and opportunities of value chains have driven initiatives that have built trust, first at the firm-level, and then across groups. For example, the Croatian company *Kras* invested in a Serbian biscuit factory, driving upgrading and facilitating cooperation and trust in the post-conflict phase.[305]

The value chain framework provides a structure for trust-building by engaging stakeholders in assessing and prioritizing constraints and options for upgrading in response to market opportunities, and to identify trusted actors with the incentives and ability to facilitate the process. In some situations, trust can be re-established by bringing business and community leaders from various conflict-affected communities together to identify and make decisions

---

301 ACDI/VOCA (2006)

302 For example, those established by CHF in Bosnia

303 a model development by Mercy Corps, applied in Serbia, Kosovo, Macedonia involving workshops on agribusiness, regional trade, etc.

304 IRC (2007)

305 International Alert (2005b)

about their needs and priorities and strategize together on an economic growth agenda.[306] Entities such as business associations and Chambers of Commerce can serve a key function in prioritizing economic relations and providing some form of assurance on behalf of their members or constituents. Mechanisms to minimize or share risk, such as third-party guarantees and pre-financing, help reduce market transactions to more "riskable" steps. The government has a significant role to play in facilitating the rebuilding of trust among firms as well as among previously conflicting groups.[307] Contract enforcement mechanisms, for example, are critical to maintaining trust in any commercial economy. Similarly, policies and regulations that provide the setting for equitable distributions of benefits, for example anti-monopoly laws, help trust to be established and maintained among different economic actors.

E. DESIGN AND IMPLEMENTATION

Value chain implementation principles may need to be adapted but should not be abandoned when designing value chain development programs in conflict-affected situations. These principles include facilitating changes in firm behavior, transforming relationships, targeting leverage points and empowering the private sector.[308] As mentioned at the beginning of this review, the need for adaptations to the value chain approach in conflict-affected settings is the subject of research based on 12 specially commissioned and 2 pre-existing case studies. Potential methods to create synergies between value chain development and relief and rehabilitation initiatives are briefly discussed below.

1. EMPLOYMENT GENERATION

Harnessing the potential of a country's labor pool is key to economic growth as it generates income that translates into increased market demand while contributing to developing productive industries. Donors commit a large percentage of relief and reconstruction budgets to cash-for-work projects, vocational training and other forms of employment readiness and generation. Where these efforts are integrated into value chain development strategies, donor investment can be expected to achieve more long-term, sustainable results. Focusing resources on strengthening the industries that provide employment and incomes with the reestablishment and improvement of the services on which these industries depend offers a critical contribution to building sustainable peace, as demobilization often poses a major economic threat to families, communities and even microenterprises which depended on salaries or other resources from soldiers or combatants.[309]

Much of the literature on post-conflict economic recovery (most notably the wide body of ILO materials) focuses on immediate employment generation, particularly for vulnerable populations, linking populations in need of work to immediate reconstruction activities, and providing training to develop generic vocational or business skill sets likely to be in demand by the nascent or re-emerging private sector.[310] In addition, the literature provides guidance on accessing and integrating particularly vulnerable populations into employment schemes.[311] There are only isolated references to the need to assess local industries' requirements in order to identify appropriate candidates for employment and tailor skills training.[312] Like much of the ILO, an issues paper for USAID's Center for Development Information and Evaluation focuses on supply-side interventions for immediate job creation—such as funding for counseling, training and placement of unemployed and underemployed in permanent jobs—and on administrative

---

[306] This has been documented thoroughly in International Alert's *Local Business, Local Peace* for countries including Afghanistan, Bosnia & Herzegovina, Burundi, Cyprus, Kosovo, Nepal, the Philippines, and Sri Lanka. International Alert (2005b). Also, within the context of USAID's Community Action Programs in Serbia, Iraq and other conflict-affected areas.

[307] Beasley (2006); Hertzberg (2004)

[308] Campbell, R., *Key Elements of the Value Chain Approach—AMAP Briefing Paper*, USAID (forthcoming)

[309] Specht (2003) p. 95

[310] see for example De Luca (2003), Ducci (1997), Date-Bah (2003), Beasley (2006), ILO (2001a and 2001b)

[311] de Watteville (2002), Tutnjevic (2003), Zuckerman and Greenberg (2006), Specht (2003), Date-Bah (2003b); Achio and Specht (2003); Date-Bah and Hall (2003)

[312] Date-Bah (2003) p. 21; Douglas et al (2004) p.84

mechanisms of funding job creation schemes (through direct budget support for government-sponsored emergency employment projects, through grants to NGOs or contractors, or directly to affected communities).[313]

These employment schemes are driven by a quick identification of projects based on immediate local needs, such as sanitation, small-scale community infrastructure rehabilitation, agricultural rehabilitation and occasionally larger-scale public works. Such schemes have limited absorptive capacity and, more important, inevitably end as soon as the immediate recovery phase is over, leaving populations vulnerable once again. While both ILO and USAID acknowledge that funding should support the recovery of SMEs, only a few isolated examples of SME development are provided, none within the context of high-potential value chains, and with minimal employment benefits.

Further research is needed to assess the effectiveness of using the value chain framework to identify industries with relatively high employment generation potential, and to identify individual firms within these industries that can be supported to maximize employment generation in the short term and to invest in improved productivity in the longer term.

2. MARKET-INTEGRATED RELIEF

The market-integrated relief approach has been developed to replace separate and temporary "relief distribution channels," considered unsustainable and distortionary. Market-integrated relief addresses the needs of crisis-affected populations and works through, rather than crowds out, local markets to deliver needed aid, while leveraging opportunities to strengthen these local markets to fuel economic reconstruction.[314]

Illustrative examples of relief interventions that help build the foundation for value chain development include the following:

- using commercial suppliers as much as possible rather than creating parallel relief supply channels
- purchasing relief supplies (food, shelter and inputs) from local or regional markets to stimulate market activity
- restocking inventories/inputs of local businesses, input suppliers and farmers rather than providing relief supplies directly
- supporting local factories to produce relief materials rather than sourcing from outside
- developing livestock restocking mechanisms for refugee and IDP pastoralists rather than direct food aid
- integrating institutional development of local entities (firms, associations, service providers, etc.) into project design

Risks involved in market-integrated approaches to relief include overstretching the capacity of local markets to provide the necessary relief goods, causing inflation or price swings, and the possibility of resources being monopolized by certain actors, thereby heightening tensions.[315]

3. CAPACITY BUILDING OF LOCAL INSTITUTIONS

A trade-off has been observed in conflict-affected situations between the short-term need for fast delivery of relief supplies and the longer-term objective of capacity building. For example, in East Timor's reconstruction, the sectors that made progress in establishing effective institutions were generally weaker in achieving physical reconstruction targets.[316] Some approaches to accelerating reconstruction and service delivery while building institutional capacity include early involvement of national counterparts; targeted training to private-sector, civil society and government

---

313 Beasely (2006)

314 Miehlbradt, McVay, (2006)

315 Nourse, et al (2006)

316 Rohland and Cliffe (2002)

leaders; unified sectoral programming; building on community-driven approaches; harnessing the capacity of the private sector and civil society; and early attention to building procurement and payment systems.[317]

4. SOCIAL SAFETY NETS

Social safety nets can be defined as initiatives that aim to help poor and vulnerable people manage risk and overcome deprivation through direct cash or in-kind transfers.[318] According to the Chronic Poverty Research Centre (CPRC), key elements of an effective social protection package are "a core of broad measures to enhance incomes, build assets, strengthen security and increase access to services, combined with specific measures (such as nutritional support) targeted at particularly vulnerable groups, supported by wider complementary policies promoting economic opportunities and political and social rights."[319] Effective social protection is increasingly seen as vital to strengthening stability in vulnerable communities and countries by increasing local capacity to withstand shocks and break the poverty trap—or as in cases of conflict-affected environments, the poverty-conflict trap.

Most social safety nets aim to accomplish the following:

- *protect incomes and consumption*—through cash or in-kind transfers, cash or food for work programs and food subsidies
- *enhance human development*—through measures to ensure access to basic services
- *promote productive livelihoods*—through direct support to agriculture or other key subsectors or cross-cutting services such as microfinance[320]

In conflict-affected environments, social protection systems are generally in a double bind: While institutional capacity to implement these programs is weak, the systems are in high demand to deal with the social effects of war. Meanwhile, residual tensions from the conflict complicate the structuring of social protection schemes, which may inadvertently benefit certain groups over others.[321]

Cash transfers have risks and benefits. Cash is more cost-effective to manage and therefore faster to implement because its transaction costs are lower. It is easily converted, allows for greater beneficiary choice and can stimulate local markets. Cash has also been shown to have a multiplier effect when injected into local markets, benefiting traders and producers as well as buyers. In terms of risks, cash bears a major risk of being used in ways other than those intended by the donor; it can contribute to local inflation and poses security risks.[322] A number of initiatives by USAID, CGAP and the Ford Foundation are investigating how the value chain approach can be used to "graduate" beneficiaries of social safety net programs into the mainstream economy.[323]

5. LIVELIHOOD STRATEGIES

Livelihoods refer to the capabilities and assets (including material and social capital) required for a means of living; sustainable livelihoods are those that are able to cope and recover from stresses and shocks and maintain or enhance capabilities and assets while not undermining the natural resource base.[324] The concept of sustainable livelihoods alters the focus from income and consumption to directly address the critical role that assets and capabilities play in improving individual and household social and economic well-being (and associated poverty reduction). Yet the

---

[317] ibid
[318] CPRC (2007)
[319] ibid
[320] ibid
[321] Bodewig (2002)
[322] Peppiatt et al (2001)
[323] http://www.cgap.org/gm/document-1.9.2586/FocusNote_34.pdf
[324] Moser (2005)

emphasis on livelihoods *per se* means that the importance of asset building—the accumulation and longer-term consolidation of assets—is often not given sufficient emphasis.[325]

Initiatives taking a sustainable livelihoods approach tend to be multi-sectoral and interdisciplinary, use participatory planning, focus on sustainability, work at multiple levels, be implemented through partnerships, and be flexible in response to changes in local situations. The sustainable livelihoods approach has been criticized for several reasons that have implications for coordination with value chain development programs.[326] First, the multi-sectoral approach means that in practice it is difficult to coordinate among the divisions or ministries responsible for various aspects considered under livelihoods. Second, the approach has been seen as weak on issues of politics, rights and power dynamics: "despite its identification of 'structures' and 'processes', the sustainable livelihoods framework tends to focus more on the technical nature of development."[327] Most critically, the framework restricts its focus to the micro-level, therefore leaving untapped much of the potential for policies and strategies which could drive micro-level development.

While many bilateral donors have abandoned their sustainable livelihoods approaches in favor of more integrated approaches, some influential international NGOs continue to use adapted versions of the sustainable livelihoods framework, often integrating rights-based approaches.[328] Several NGOs and scholars have developed more comprehensive analytical tools, expanding the framework to identify and address power dynamics, including governance and economic equity, empowerment and social inclusion, and institutional aspects of social provisioning.[329] Donors—notably the World Bank and ILO—have introduced community-driven approaches to the design and implementation of livelihoods support interventions.[330] These approaches complement the value chain development approach in several ways. They use communal knowledge to compensate for lack of formal information about labor supplies and demand, available skills and business opportunities; they facilitate trust-building through the (re-)establishment and strengthening of business networks, thereby stimulating economic cooperation and reducing transaction costs involved in business dealings; they counteract weak central institutions and strengthen civil society's capacity to engage in advocacy for a more supportive enabling environment; and they enhance the purchasing power of local markets by making use of local suppliers and contractors, labor-intensive techniques, cash for work and locally produced inputs.[331]

ODI, with funding from DFID, has recently proposed an innovative approach to using agricultural rehabilitation to link social protection, livelihood promotion and humanitarianism. This approach acknowledges value chain and subsector approaches as tools for navigating the range of micro-, meso- and macro-level constraints and opportunities needed to link social protection with sustainable livelihoods and human rights.[332] The recognition of the utility of value chain and long-term approaches to livelihoods programming is a significant opportunity in accelerating the transition from relief to sustainable growth.

6. CREDIT

Credit components have been integrated into or added to programs aiming to revive rural economic activities and re-establish markets in post-conflict settings. Some literature advocates the use of credit as a priority from the outset, particularly in engaging economically marginalized women into the economy in the early stages of recovery. Specific

---

325 ibid.
326 ibid. pp.13-14
327 Moser and Norton (2001); Bennett (2003); Kabeer (2004); cited in Moser (2005) p.15-16
328 ibid.
329 ibid.
330 Goovaerts et al (2005)
331 ibid.
332 ODI (2005); ODI-HPG (2006)

mechanisms introduced in recent years include credit schemes that use remittances as collateral; grants to make up for initial lack of credit supply; and guarantee funds provided to local banks to support loans to SMEs, with community groups participating developing eligibility requirements and pre-screening loan applications.[333] But where credit is employed as an afterthought without sufficient planning and expertise—as has often been the case in post-conflict environments—it has been shown to have dangerous implications for long-term financial sector development.

Where credit is employed, it needs to be approached in the same manner as in any stable economy, with appropriate pre-determined repayment targets and collection measures. If the local context precludes this level of basic financial management, credit should be replaced by outright grants rather than loans in order to avoid potentially long-term negative affects on the credit culture.[334] The literature about credit in conflict-affected environments suggests employing "intermediated grants," administered by government or quasi-government entities, with a clear transition to "intermediated credit" administered by financial institutions as soon as feasible. Intermediated grants are proposed as an alternative to the highly subsidized credit which would have to be employed in most conflict-affected situations where financing constraints and risk would make commercial credit rates too high for most target beneficiaries to access.[335] Rather than distorting credit markets by offering subsidized rates or encouraging non-repayment, intermediated grants bear no expectation of repayment but also have clear selection criteria and are explicit about their short-term nature.

---

[333] for example Goovaerts (2005)

[334] Conroy (2004)

[335] ibid.

V. CONCLUSIONS

Through the literature review of the value chain approach applied in conflict-affected environments, the following conclusions were drawn:

- Conflict emerges from complex interactions of economic and social, political and cultural motivations that are unique to each situation. Therefore, in order to tackle what is known as the poverty-conflict trap, interventions must a) introduce both immediate and sustainable economic opportunities to ensure that poverty does not incite renewed conflict and b) be designed with an understanding of the non-economic conflict dynamics in each specific location and how they interact with economic dynamics.

- No matter how devastated a post-conflict environment appears at first glance, economic structures existed prior to the conflict and some are most likely still functioning. It should be an immediate priority to identify any economic actors, structures and mechanisms that have survived the conflict in order to salvage and build on them. This "asset-based" analysis will safeguard post-conflict interventions from inadvertently destroying remnants of economic viability and creating dependency, and facilitate more rapid impact.

- Ideally, value chain development interventions should occur in parallel to relief operations, and the basic tenets of minimizing market distortion should be integrated into relief design and implementation. Staff should be allocated with specific responsibilities for economic analysis and strategy design in the post-conflict phase.

- In the sector selection process, criteria used to prioritize industries for development should be an intentional, objectives-based balance between immediate socio-economic and cross-cutting impact *and* building the foundations for industry competitiveness.

- Value chain analysis must incorporate analysis of specific conflict dynamics, especially in relation to 1) the redistribution effects of proposed interventions in terms of income and power and their potential impact on conflict dynamics; and 2) the potential for conflict dynamics to impede or distort value chain development.

- Attention needs to be paid to the broad geographic impact of conflict, including in periphery areas and neighboring countries, in order to account for the full economic effects of the conflict on markets and to maximize the potential for linkages to areas where markets are still functioning.

- Diaspora communities should be targeted as sources of market linkages, market information and capital infusions. Since many relief organizations have contacts with Diaspora communities through fundraising initiatives, an added level of interaction on economic linkages could easily be explored.

- Preserving and rebuilding compromised vertical and horizontal linkages and the trust that enables those linkages to function is one of the keys to establishing a foundation for post-conflict recovery and growth and should be a focal point for the intersection of relief and development interventions. Strategies to build trust include facilitating structured dialogue, developing "riskable" steps through safeguards, guarantees, transparent systems and risk sharing, and the use of trusted intermediaries.

- Actors engaged as intermediaries prior to the conflict, or those who have gained trust and respect during or after the conflict, are well placed to facilitate linkages, agreements and collaboration. While direct linkages between firms may be more efficient, intermediaries may need to remain in place for some time until mistrust between firms can be overcome.

- Research shows that where democracies existed prior to conflict there is a better chance for swift recovery, but swift post-conflict transitions to democracy are not conducive to strong economic recovery or growth. Therefore full-scale democratization should be differentiated from the basic policy and regulatory preconditions necessary to support a strong business environment.

- Four categories of policies should be addressed as soon as possible in order to lay the foundation for value chain development:
  - policies with the potential for fueling or supporting renewed conflict
  - policies introduced to meet the special needs of wartime which may have severe effects on the recovery and distribution of productive assets if maintained into the post-conflict phase, and which may in any case be likely targets of conditionality for foreign assistance
  - policies to establish the minimum requirements for investment and basic business operations and rebuilding inter-firm trust, such as the establishment and enforcement of regulations ensuring property rights and contractual commitments enforcement
  - policies to facilitate restoration of basic services

- The domestic private sector in conflict-affected countries should be engaged in advocacy starting from the peace-building and conflict resolution phase on topics such as reconciliation, addressing security concerns and participating in business-related policy dialogue. Engaging them will contribute socio-economic capital to support the transition process, inform changes in the enabling environment and help to preserve the status of business leaders as key players in driving economic recovery and growth.

- In the immediate term, the domestic private sector should be supported to capitalize on infrastructure reconstruction and peacekeeping budgets by building their capacity to supply demanded products and services, but steps should be taken to ensure enough flexibility for industries to adapt and remain viable after the reconstruction phase opportunities have passed.

- Employment generation programming—including cash for work, vocational training and assistance to micro-enterprises and farmers—should be linked into the value chain development framework in order to provide immediate incomes while simultaneously building the foundations for broader economic recovery and growth.

During the course of this literature review, several tools were identified as needing to be developed, as follows:

- Transitional results matrices and post-conflict needs assessments have so far failed to incorporate microenterprise and industry competitiveness-related indicators. A strategic effort should be made to address this level of analysis and planning.

- A diagnostic tool merging aspects of value chain analysis data collection with other assessments being used in post-conflict environments would facilitate capturing key value chain information with minimal time and resource allocation, as well as introducing relief practitioners to key concepts of value chain development.

- Identifying what and where market activity is functioning at the local and regional levels should be a priority for coordination among relief agencies, donors, governments and inter-governmental agencies in order to facilitate access to these markets. A basic assessment tool would facilitate this coordination.

- A tool is needed to quickly identify and assess key enabling environment issues impacting economic recovery in post-conflict environments.

- Tools that identify and measure changes in the types and quality of relationships (including levels of trust) should also be developed.

Beyond this Literature Review

The findings and preliminary conclusions of this review will be further tested through a comparative study of 12 specially commissioned and 2 pre-existing case studies of value chain development initiatives in a range of conflict-affected environments. These cases are summarized in Annex B of this review. The synthesis report will be published by USAID on the www.microlinks.org/conflict website. Perhaps of special interest related to this topic is the use of strategic subsidies in supporting economic growth in conflict-affected environments. Preliminary thoughts concerning this issue are presented briefly in Annex D.

ANNEX A: USAID'S VALUE CHAIN APPROACH

INTRODUCTION

Globalization is a process by which people, companies, goods, services, capital, information and ideas are exchanged across international boundaries. Although cross-border trade has existed for centuries, modern day trading—fueled by multi- and bilateral trade agreements, global investments and innovations in information and communications technology—has expanded in volume and geographic reach.[336] Today, almost all countries are integrated to some extent into the global economy and are experiencing varying degrees of economic growth. While economic growth generally reduces poverty, it does so at different rates in different contexts, with the greatest impact on poverty reduction occurring in those countries with the most equitable income distribution.[337]

Globalization of markets ties the sustainability of firms to the competitiveness of the industries in which they participate. Firms within an industry in a country or region must increasingly compete—even in local markets—with firms and industries from across the globe. To succeed in global markets, entire industries (or value chains) must be able to deliver a product to the consumer more efficiently, with a higher quality and/or in a more unique form than the value chains in competing countries. In this way, competitiveness at the firm and industry levels are interdependent. Increasing the competitiveness of the firm is only effective at sustainably creating wealth and alleviating poverty when the competitiveness of the industry is similarly raised by interventions at all levels of the value chain.

Most emerging economies have a comparative advantage in the provision of labor and land and the exploitation of certain natural resource and climactic advantages over more developed countries. Conversely, with the possible exception of China and some South and Southeast Asian economies, investment capital is scarce, and instability in the business enabling environment has not favored the emergence of capital-intensive industries. Exploiting these comparative advantages, the dominant industries in emerging economies tend to be characterized by high levels of micro- and small enterprise (MSE) participation. Any strategy in these countries that seeks to achieve broad-based economic growth and poverty reduction will need to focus on MSE-dominated industries with the capacity to be globally competitive.

COMPETITIVENESS

Competitiveness is the ability of a firm or industry to develop and maintain an edge over market rivals. This can be achieved through a combination of three strategies: producing and delivering goods and services more efficiently, differentiating products or services through quality standards and branding, and/or exploiting new market demand.

Economic growth with poverty reduction can be achieved by targeting industries where the poor are concentrated—such as agriculture and informal sectors—promoting strategies that make the target industries more competitive, and ensuring broad distribution of benefits at all levels of these industries.

---

[336] The volume of world trade increased by 20 times from 1997 to 1999.

[337] Ravaillon, Martin. "Competing Concepts of Inequality in the Globalization Debate." World Bank Policy Research Working Paper 3243. March 2004.

VALUE CHAINS

Value chains encompass the full range of activities and services required to bring a product or service from its conception to sale in its final markets—whether local, national, regional or global. Value chains include input suppliers, producers, processors and buyers. They are supported by a range of technical, business and financial service providers.

Figure 1: Value Chain Causal Model

Value chains have both structural and dynamic components. The structure of the value chain influences the dynamics of firm behavior and these dynamics influence how well the value chain performs. Figure 1 presents a causal model linking value chain structure, dynamics and outcomes.

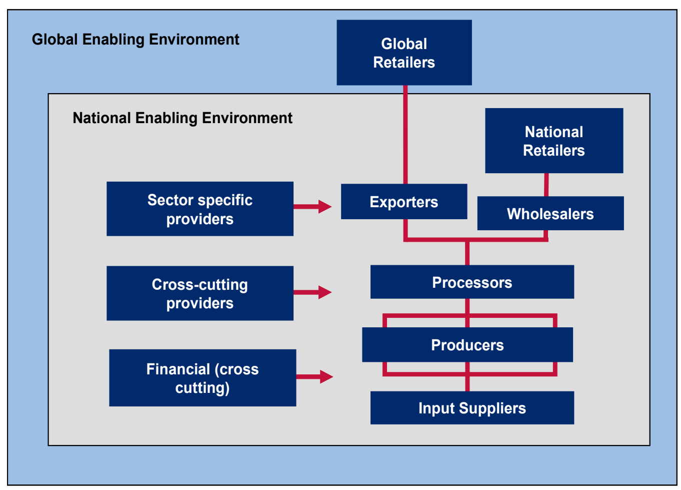
VALUE CHAIN STRUCTURE

The structure of a value chain includes all the firms in the chain and can be characterized in terms of five elements described below. Figure 2 presents a graphical representation of the structural elements of a generic value chain.

1. END MARKETS

End markets are people, not a location. They determine the characteristics—including price, quality, quantity and timing—of a successful product or service. End market buyers are a powerful voice and incentive for change. They are important sources of demand information, can transmit learning, and in some cases are willing to invest in firms further down the chain. The value chain approach assesses current and potential opportunities in all possible markets, through interviews with current and potential buyers, and takes into consideration trends, prospective competitors and other dynamic factors.

Figure 2: Value Chain Structure



2. BUSINESS AND ENABLING ENVIRONMENT

The business and enabling environment at the local, national and international levels includes norms and customs, laws, regulations, policies, international trade agreements and public infrastructure (roads, electricity, etc.) that either facilitate or hinder the movement of a product or service along its value chain. Many international trade agreements and quality standards present opportunities for market expansion but can be extremely expensive for firms, especially MSEs, and can easily preclude a developing country from being competitive. The national policy and regulatory environment is critical to the functioning of markets and enterprises. Poor local government operations and weak enforcement of legal and regulatory regimes increase transactions costs and risks, limiting investments in relationships and upgrading. Conversely, local policies can generally be influenced more easily than laws and regulations and can have a significant positive impact on industry competitiveness.

3. VERTICAL LINKAGES

Relationships between firms at different levels of the value chain are critical for moving a product or service to the end market. More efficient transactions among firms that are vertically related in a value chain increase the competitiveness of the entire industry. In addition, vertical linkages facilitate the delivery of benefits and embedded services and the transference of skills and information between firms up and down the chain. Research has demonstrated the positive impact on learning and benefits to small-scale producers from entering into contractual relationships with processors, exporters and end market buyers. Mutually beneficial relationships among vertically related firms can improve MSEs' access to markets, new skills and a wide range of services, and can reduce market risk by securing future sales.

4. HORIZONTAL LINKAGES

There is a necessary tension between cooperation and competition among firms performing similar functions in a value chain. Relationships between firms—whether formal or informal—can reduce the transaction costs for buyers of working with many small suppliers. By facilitating bulk purchasing of inputs or enabling large orders to be filled, horizontal linkages can help small firms to generate economies of scale. Industry associations can enable the creation of industry standards and the implementation of marketing strategies. Key to gaining value from horizontal cooperation is recognizing joint constraints that require collective action. Simultaneously, competition between firms is necessary to stimulate and reward innovation and make an industry better able to respond to market changes.

5. SUPPORTING MARKETS

Support services are key to firm-level upgrading. They include financial services; cross-cutting services such as business consulting, legal advice and telecommunications; and sector-specific services, for example, irrigation equipment or handicraft design services. Where these services are needed over the long term, they must be provided commercially or by markets. These markets can include services provided by actors in the chain, or by stand-alone service providers. Services provided by actors in the chain tend to be embedded, such that the cost of the service is built into an existing commercial transaction. New technologies or technical services can have a substantial effect on the performance of an industry and can even change the competitive dynamic in certain markets.

VALUE CHAIN DYNAMICS

The firms in an industry create the dynamic elements through the choices they make in response to the value chain structure. These dynamic elements include:

- **Upgrading**—the investments made by firms to achieve higher levels of efficiency, increase product differentiation or reach new markets, resulting in greater benefits. Factors that facilitate this process include a clear market opportunity, a supportive enabling environment and the availability of critical services including finance, technology and information. Product development and improvements in production processes are integral to sustained competitiveness through enabling firms to meet the market's constant demand for innovation.

- **Inter-firm cooperation and competition**—the extent to which firms work together to achieve increased industry competitiveness and greater benefits while simultaneously competing for supply and market share. Industry competitiveness strategies will vary greatly depending upon the levels of inter-firm cooperation and competition. Where cooperation is limited—such as in emerging industries, transitional economies and those with weak or hostile business enabling environments—strategies will tend to focus on short-term, high-impact activities that create incentives for participants to increase cooperation. Where limited inter-firm competition constrains innovation, strategies are likely to assist individual firms to realize the benefits of upgrading.

- **Transfer of information and learning between firms**—this is key to competitiveness since upgrading is dependent on knowledge of what the market requires and the potential returns on investments in upgrading. Learning and innovation are closely related to the incentives that encourage or discourage the delivery and absorption of new knowledge or skills, and the types of mechanisms that are in place to affect their transfer. The most competitive industries are those that institutionalize learning mechanisms.

- **Power exercised by firms in their relationships with each other**—this shapes the incentives that drive behavior and determines which firms benefit from participation in an industry and by how much. Relationships can range from highly dependent—where one party dominates—to balanced, where all parties involved have some power that they can wield. In any given industry, relationships can cover the full range, and these relationships can change depending on shifting market demands. Power in value chains typically translates into benefits. The firms able to wield power through branding or access to worldwide suppliers and those traders in a chain able to control information can often exact a larger share of benefits from producers and suppliers.

These and other dynamic elements—such as the power of end markets and exogenous changes that shape the business and enabling environment—are interrelated and can exert a recursive influence on the structure of the value chain.

VALUE CHAIN GOVERNANCE

Hubert Schmitz (2004) distinguishes between four types of governance relationships in value chains:

- ***Market-based:*** enterprises deal with each other in arms-length transactions
- ***Balanced network:*** enterprises cooperate and have complementary competences
- ***Captive network:*** the lead firm sets the parameters under which others in the chain operate; the relationship is quasi-hierarchical
- ***Hierarchy:*** enterprises are vertically integrated; the parent company controls its subsidiaries

Schmitz, Local Upgrading in Global Value Chains: Recent Findings (DRUID Summer Conference Paper, 2004)

VALUE CHAIN OUTCOMES

The dynamic elements of the value chain all play a role in determining value chain performance, which is measured in terms of the two critical outcomes of value chain competitiveness and MSE benefits. These two outcomes are interdependent in MSE-dominated value chains: if the chain is not competitive, MSE benefits will erode over time; and without sufficient benefits, MSEs will lack incentives to change behavior patterns and take on new risks—which are essential to the maintenance of competitiveness.

Value chain benefits are not restricted to higher returns. They include more dependable or timely returns, reduced risk, the increased value of assets and opportunities for learning. Firms in a value chain that have more power typically receive the greatest benefits from business transactions. Understanding the power dynamics in value chains can point to interventions that improve the benefits to MSEs in competitive value chains.

ANNEX B: SUMMARY OF GUIDED CASE STUDIES IN VALUE CHAIN DEVELOPMENT FOR CONFLICT-AFFECTED ENVIRONMENTS

Organization	**Country**	**Value Chain(s)**	**Research Questions/Hypotheses**
Chemonics	Afghanistan	Poultry, grapes/raisins	• The value chain approach can be used to rebuild markets in post-conflict environments. • Sector selection and value chain analysis tools can be adapted to post-conflict situations and the need for quick action. • Strategic subsidies can be used to lay the groundwork for an eventual transition to a market-driven economy with minimal or no market distortion effects.
Chemonics	Kosovo	Dairy	• How can sector selection and value chain analysis tools be adapted to post-conflict situations and the need for quick action? • How can value chain analysis and the value chain framework help us identify and understand the major opportunities for upgrading and the driving constraints to market growth exacerbated by or resulting from conflict?
CHF	Haiti	Construction	• Applying a value chain analysis in conventional post-conflict infrastructure programs compels a change in program design: for the Haiti case, programs can enhance efficiencies, create value-added employment, and establish stronger regional links. This case study will illustrate the distinct program shifts that occur as a direct result of value chain application. • Existing value chain tools, such as the one developed through USAID/AMAP, require further adaptations to respond to the logistical, personnel, and security constraints posed by a conventional infrastructure program design in which immediate results are typically the primary focus. The case study will document such considerations and adaptations.
IDE	Nepal	High-value agriculture	• The value chain approach improves the livelihoods of rural, conflict-affected populations and accelerates economic development. The integration of psychosocial and peace-building activities into the value chain approach strengthens local capacities for peace, contributes to conflict mitigation and recovery processes, and facilitates an environment conducive for sustainable economic growth.

International Alert	Colombia, Sri Lanka	Coffee Fisheries	• How can conflict analysis enhance the value chain approach and its contribution to economic recovery in conflict-affected contexts? • How can value chain linkages help to integrate conflict-affected populations with licit economies and encourage the development of social capital in conflict-affected contexts? • How can an understanding of the value chain's impact on the wider conflict, in turn, be integrated in order to make it more 'conflict-sensitive'?
IRC	Guinea	Groundnuts	• How can improved communication -- based on trade relationships -- help integrate communities whose social structure has changed due to conflict, and contribute to rebuilding trust between members of the community? • Can stakeholders be encouraged through a value chain approach to adopt a long-term "win-win" perspective, overcoming the "right-here, right-now" survival instinct that is often a result of conflict and instability? • How can value chain activities be used to create a socio-economic context that facilitates the rehabilitation and transition of post-conflict communities? • How can value chain analysis help to quickly identify the major opportunities for upgrading and the constraints to market growth immediately after a conflict?
IRC	N. Uganda	Cotton	• To what extent can value chain linkages—vertical or horizontal—help to integrate those affected by conflicts with economies where markets are functioning? • How can value chain analysis and the value chain framework help us identify and understand the major opportunities for upgrading and the driving constraints to market growth exacerbated by or resulting from conflict?
MEDIC	Sudan	Shea butter	• How can the value chain approach contribute to the rebuilding of markets in post-conflict situations? • To what extent can value chain linkages – vertical or horizontal – help to integrate those affected by conflicts with economies where markets are functioning? • How can end markets best be used to drive market upgrading and value chain strengthening in post-conflict situations? • How can strategic subsidies, including grants and/or vouchers, be used to lay the groundwork for an eventual transition to a market-driven economy?
Mercy Corps	Serbia	Meat, dairy	• During a period of post-war reconstruction, targeted support to *capable, value-added processors* leads to a) faster market revitalization, and b) stronger market linkages within strategic sub-sectors. Mercy Corps will demonstrate whether this approach is more effective than directing economic assistance resources to the most economically vulnerable actors in a strategic sub-sector or letting market mechanisms regenerate strategic sub-sectors on their own.

OTF	Rwanda	Tourism	• By creating a more holistic, "bigger-picture" view of industry, the value chain approach facilitates the adoption of longer range "win-win" strategies, rather than short term "win-lose" ones. • The value chain approach is the correct level of intervention to identify industry level constraints to and opportunities for growth, as opposed to firm-level or enabling-environment interventions.

ANNEX C: SUMMARY OF EXISTING TOOLS AND LESSONS LEARNED TO DATE

This literature review does not include a detailed assessment of the range of existing tools relevant to the intersection of relief and economic growth in post-conflict environments since this is the subject of another AMAP-funded project currently underway.[338] Instead, this document refers to aspects of some of these tools in its discussion of market development in conflict-affected environments. This annex provides some additional comments on and descriptions of tools considered most relevant to the application of the value chain approach. These tools deal predominantly with working *in* conflict (conducting economic development within conflict-affected environments) rather than working *on* conflict (interventions to mitigate or transform conflict). Several tools, however, combine the two. The existing tools can be broadly categorized as follows, with some overlap between categories:

- conflict analyses
- private-sector tools
- post-conflict transitional planning frameworks
- operational guides

A. CONFLICT ANALYSES

These include *conflict assessments* aimed at helping the private sector (mostly multinational companies), donors and NGOs to understand the conflict dynamics and assess the impact of conflict on their operations; and *conflict impact assessments* aimed at helping the private sector, donors and NGOs to assess the potential impact of their operations or activities on conflict in order to mitigate unintended negative impact.

Almost all bilateral and multi-lateral donors, as well as many NGOs, have developed their own conflict assessments.[339] Several of these assessments are part of broader program design guides[340] that, although providing a useful and coherent process from analysis to design, result in conflict factors driving program design rather than primarily, or even equally, economic growth and competitiveness factors. International Alert provides a useful summary of conflict analyses in chapter two of their resource pack *Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding.*[341]

B. PRIVATE SECTOR TOOLS

These tools are aimed at helping the private sector to operate in post-conflict environments, with particular attention to ensuring human rights and fair employment practices, mainstreaming conflict prevention and minimizing risk:

---

[338] The AMAP-Financial Services project has expanded its literature review to cover tools for microenterprise development in post-conflict environments and is structured to provide a summary and rating of each tool.

[339] For example, Bush (1998); DFID (2006); GTZ (2001b); UNDG/ECHA (2004); USAID (2005); World Bank

[340] GTZ (2001a), UNDG/UNDP/World Bank (2004), International Alert (2005c)

[341] International Alert (2005c Chapter 1)

- guides to the logistics of operating within post-conflict and conflict zones while avoiding the potential to contribute to conflict dynamics[342]
- approaches to actively contributing to peace-building in areas of operations[343]
- approaches to strategically contributing to or collaborating on post-conflict relief and reconstruction as part of a corporate social responsibility strategy[344]
- approaches to broadly integrating human rights into corporate operations and governance[345]

C. POST-CONFLICT TRANSITIONAL PLANNING FRAMEWORKS

Transitional planning frameworks and matrices have emerged in the last five years to provide guidance in planning, implementing and measuring the progress of interventions throughout the post-conflict transitional stage. They are structured around key indicators of post-conflict transitions through distinct phases from conflict to sustainable peace and security. The United Nations Development Group (UNDG) and World Bank define these phases and give concrete timeframes: i) Stabilization/ Transition (12 months), ii) Transformation/Institution Building (12-24 months), and iii) Consolidation (24-36 months).[346] The Center for Strategic and International Studies (CSIS) and Association of the U.S. Army (AUSA) define the phases similarly: i) Initial Response—aiming to establish a safe and secure environment, ii) Transformation—aiming to develop legitimate and stable security institutions, and iii) Fostering Sustainability—aiming to consolidate indigenous capacity. However, CSIS/AUSA proposes a more flexible interaction of these phases, acknowledging that different proposed tasks or program components will inevitably follow different timelines.[347]

The recent UNDG/UNDP framework provides guidance for tailoring transitional matrices[348] to each post-conflict environment. The matrix should be simple and selective; integrated across economic, political and social lines; and country-specific and nationally-owned—in addition to having donor buy-in. Priority actions should be crucial areas where lack of progress would risk reversal in the stabilization and recovery process. This guidance responds to weaknesses of previous transitional plans which have suffered from the following:

- lack of overarching, nationally driven plan and donor consensus regarding this plan, resulting in fragmentation, gaps or duplication in aid-financed programs
- inadequate links between priorities in the political and security arena and priorities in the economic and social arena
- overloading new governments with too many simultaneous decisions
- loss of momentum after a key transitional event (peace agreement, international donors conference, etc.)
- unrealistic expectations on the part of the population, national leadership and donors

While the above-referenced tools include a category on economic factors, they all fail to include indicators that capture the firm- and industry-level structures and dynamics affecting value chain development; and although they

---

342 Campbell (2002); De Luca (2003); Goldwyn and Switzer (2003); Gossen (2002); International Alert (2005a)
343 Nelson (2000); Kanageretnam and Brown (2005); International Alert (2005b)
344 Nelson (2000)
345 Business Leaders Initiative on Human Rights, UN Global Compact, and the Office of the UN High Commissioner for Human Rights
346 UNDG/World Bank 2005
347 Center for Strategic and International Studies AUSA 2002
348 Also referred to as a Transitional Calendar or Results-Focused Transitional Framework (RFTF), is a planning, coordination, and management tool that national stakeholders and donors can use to better prioritize actions necessary to achieve a successful transition in
fragile states. See http://www.oecd.org/dataoecd/29/18/34245139.pdf

claim to integrate the interlinked economic, political and social factors in post-conflict transition, in fact they take a narrow view.[349]

D. OPERATIONAL GUIDES

These tools are aimed at helping relief and development practitioners to design and implement specific aspects of post-conflict programming, much of which falls into three categories:

- the later phases of disarmament, demobilization and reintegration (DDR), involving emergency employment generation programming targeting ex-combatants[350] and a related category of programming targeting other vulnerable groups[351]
- market development approaches to relief and recovery
- integrating conflict sensitivity into sectoral programming in post-conflict environments

SEEP APPROACH TO MARKET-ORIENTED RELIEF *

- Combining direct client targeting (refugees, IDPs, demilitarized soldiers, female-headed families, orphans) with targeting key stakeholders to leverage industry- or sector-level benefits
- More flexible tools to identify and respond to weak or compromised points in the value chain resulting from conflict (e.g., demand subsidies versus supply subsidies)
- Working through private sector actors rather than establishing "parallel relief supply channels"
- Local or regional sourcing of relief supplies
- Focusing from an early stage on identifying and developing key institutions for long-term development

** From Miehlbradt & McVay (2006)*

LED, DDR AND CRISIS RESPONSE TOOLS

The International Labour Organization's *Local Economic Development (LED) Framework*,[352] part of its "Decent Work" campaign, is an ambitious project that attempts to integrate immediate employment generation with a longer-term sustainable development approach. It provides useful guidance and tools for assessing and supporting the local private sector, taking into account the enabling environment and cross-cutting business development services. While some of the LED and DDR literature does refer to reinforcing forward and backward linkages in the most relevant economic chains and assessing the needs of local industries as part of proposed vocational training and employment services in order to ensure demand for newly skilled individuals,[353] very little concrete guidance is given as to how to analyze and accelerate the re-emergence of industries and value chains with the potential to generate significant and sustainable employment and wealth. While the ILO's *Crisis Response Rapid Needs Assessment Manual* includes several aspects of economic and business-related information relating to SMEs and BDS, microfinance and labor markets, it is not structured to identify key industries and analyze their dynamics and competitiveness potential.

---

[349] Weinstein and Tidball (2007) raise the example of education interventions in Sudan which ignore the fact that the driving constraint to girls' access to education is the need for girls to spend several hours a day in search of water—a fact which has been identified in several reports.

[350] Becker (2006), Body (2005), Douglas (2004), Ducci (1997),

[351] Tutnjevic (2003)

[352] Gasser et al (2004); Lazarte-Hoyle (2003)

[353] Date Bah (2003) p.21; Douglas et al (2004) p.84

For example, the labor market survey asks what skills are in demand by the local market but does not differentiate among industries or examine trends in this demand.

MARKET DEVELOPMENT TOOLS AND ANALYSES

A number of resources focus on specific aspects of value chain development in post-conflict environments such as microfinance[354] and cooperative development,[355] and a few focus specifically on adapting BDS and market development approaches to post-conflict environments.[356]

Miehlbradt and McVay (2006) address the process of building from relief to market development in crisis-affected situations through two distinct approaches: market-integrated relief (focusing on the procurement and distribution of food aid) and private sector development. Their discussion is helpful in describing ways to minimize the market distortions of food distribution and the risks involved in a market-integrated approach to relief (including overstretching the capacity of markets and private sector businesses to deliver critical goods to vulnerable populations; risks of inflation or price swings in markets where goods are scarce and prices rise easily; and the possibility of relief resources being monopolized by a dominant ethnic or economic group, reinforcing conflict dynamics). However, their discussion of value chain dynamics and approaches in post-conflict environments is indicative of the gap in the literature—it is limited to a few illustrative examples of value chain development activities but gives little concrete guidance as to how to translate this into strategic approaches.

These market development tools and analyses make distinctions according to the severity of conflict and pre-existing levels of development, but not among types of conflict. Below are some key points from these documents:

- Market assessment needs to be conducted more often to account for rapid changes in post-conflict environments; new tools are necessary to conduct such rapid analysis.
- Post-conflict market development programs need to balance direct client targeting to ensure benefits to particularly vulnerable groups such as refugees, IDPs, demilitarized soldiers, female-headed families and orphans while targeting key stakeholders to leverage industry- and sector-level benefits.
- Post-conflict programming needs to ensure that market development translates into wider, more equitable access to markets to mitigate the possibility of future conflict.
- In post-conflict environments, a greater reliance on subsidies is necessary to respond to the economic realities of individuals and firms.

The key findings from a recent roundtable on post-conflict economic recovery conducted by USAID's Microenterprise Development Office (see Table 2 below) distinguished between short- and long-term programming best practices.

---

[354] Alidiri et al (2002)

[355] Parnell (1999)

[356] Nourse (2006); Nourse & Gerstle (2004); Miehlbradt and McVay (2006)

Table 2. Best Practices Identified at the Roundtable Meeting on Economic Recovery after Conflict

Type A: Strong National Capacities and Relative Stability	Type B: Weak National Capacities and High Instability
• Use flexible contracting mechanisms when possible. • Ensure that beneficiary selection is done in a fair and transparent manner. • Have clear entry and exit strategies. • Consider offering vouchers to support local markets. • Include some beneficiary contribution. • The host country government should receive credit for development activities in order to build their credibility with the population. • Empower the community to set priorities and build decision-making structures into programming. • Beneficiary selection is important and should be done carefully: should the most vulnerable be the target, or can you have more impact by assisting people that will have a "multiplier effect"? • Choose among multiple tools to achieve goals. • Conduct market assessments and use local markets and providers when possible; update assessments to reflect changes in the environment. • Conduct a constraints analysis to determine what is keeping people out of the market. • Have realistic timeframes—continually extending short-term programming is not effective. • Build monitoring and evaluation into projects.	• Evaluate external conditions. Long-term programs can be started in an earlier phase than previously thought, but there should be minimum political stability, stable population, and sufficient economic activity and a cash economy. • Evaluate donor capacity. Essential conditions include qualified staff, long-term perspective and the availability of flexible, longer-term funding mechanisms. • Select partners that have appropriate track records and sufficient backstopping capabilities; help build the capacity of organizations that may not have sufficient expertise. • Avoid targeted programs; constraining programs by vulnerability type negatively affects long-term financial growth. • Separate relief and development programming; they use different practices and apply different criteria for success. • Collaborate with stakeholders. • Apply microfinance best practices, which are relevant in conflict settings also, although products and services may need to be adapted. • Apply enterprise development best practices: work with as many actors as possible, build on existing projects, understand the market.

Source: AMAP Financial Services Roundtable Minutes March 15, 2007

The BDS approach—which has largely been replaced by the value chain approach—focuses on addressing firm-level constraints through the delivery of sustainable services by stand-alone service providers or embedded in market transactions. The value chain approach focuses more on relationships among firms and less on discrete services. Furthermore, the value chain approach considers industry-level constraints and opportunities, focusing on systemic issues rather than the transactional constraints and opportunities of individual firms. Nevertheless, the challenges to implementing these two approaches in conflict-affected environments are similar (see Table 3 below).

Table 3: Challenges to Implementing BDS Best Practices in Conflict-Affected Environments

Best Practice Principles	Post-Conflict Challenges
Develop BDS markets rather than directly providing services.	Potential providers generally have very low capacity; relationships/linkages interrupted by conflict, lack of infrastructure and communication systems, lack of trust.
Start with market assessment.	Often difficult to conduct market assessment due to security situation—static market assessments rendered ineffective due to rapidly changing post-conflict environments.
Tailor the program intervention to the market issue.	Choosing the right program intervention is complicated by a plethora of market failures and difficulty in obtaining information.
Do not subsidize service delivery.	Low purchasing power of populations and lack of capital among providers makes unsubsidized services unrealistic.
Work towards a clear picture of a sustainable market and have an exit strategy.	Very weak markets; highly unpredictable market environment; short-term horizon of relief programs, donors, practitioners.
Find private sector providers who can deliver sustainable BDS.	Low institutional capacity of private sector providers.
Promote competition and efficiency in the market.	Post-conflict markets are often characterized by scarcity of providers and low demand.
Develop contractual and business-like relationships with providers.	Business relationships harder to cultivate in post-conflict environments due to ongoing relief mentality and dependence on operating grants.
Tread lightly in markets—don't distort them with donations.	Many relief-oriented programs are designed to provide large amounts of inputs quickly; markets also severely distorted by peace-keeping forces, breaks in supply, security constraints, etc.
Make programs flexible and responsive to the market.	Rapidly changing post-conflict environments require even higher level of flexibility.
Coordinate donor efforts.	Difficult in relief environment with emphasis on quick delivery of services rather than careful coordination, monitoring & evaluation.

Source: Nourse (2006) pp.3-4

OTHER TOOLS

ANTICIPATING THE PAST AND POTENTIAL SOCIO-ECONOMIC IMPACT[357]

A. Enterprise Level: What is the potential of the targeted industry or sector to:

- increase enterprise income
- lead to changes in business practices associated with increased profitability
- assist clients to survive periods of reduced cash flow

[357] Adapted from Nelson (2001) and De Luca (2003)

- absorb vulnerable un- or under-employed groups critical for reducing conflict (i.e., ex-combatants, youth and disenfranchised groups)
- increase bargaining power of entrepreneurs

B. Household Level: What is the potential of the targeted industry or sector to:

- lead to increases in household income and assets
- lead to increases in household welfare (including education, housing, food security)
- lead to increase in household's crisis mitigation or coping mechanisms

C. Individual Level: What is the potential of the targeted industry or sector to:

- increase individuals' status and engagement in business and community-related decision-making
- increase individual's control over economic resources in an equitable manner
- increase personal savings
- increase confidence and self-esteem

D. Community Level: What is the potential of the targeted industry or sector to:

- lead to reducing child labor
- contribute to community issues
- reduce unemployment and increase stability in the community
- contribute to equitable distribution of increased benefits across different community/ethnic groups

While existing tools provide a foundation for the type of analysis necessary to design effective economic interventions, they must be adapted and expanded to meet the needs of the value chain approach. Most importantly, analysis needs to address relationships between conflicting groups and business linkages in order to make private sector development initiatives conflict sensitive as well as economically viable. For example, International Alert has developed some key "entry points" for integrating conflict analysis into initial needs assessments in the field. Similarly, we propose some entry points for integrating basic information to advance the value chain approach by gaining some key information for the next stage of industry selection (see table below).

Table 4. Integrating conflict analysis into needs assessments

Entry points for integrating conflict analysis into needs assessments*	Entry point for integrating value chain analysis into conflict and needs assessments
Beyond describing poverty, focus on potential causes, examine impact of power and powerlessness on poverty, and establish sources of power in the particular community	• Identify economic activities (formal/informal; licit/illicit) of individuals/groups in poverty or other targeted groups and how these activities have changed since the conflict, and in relation to overall economic/livelihoods situation • Get a sense of relationships and power dynamics involved in these economic activities and transactions • Identify those in the power positions in these relationships and assess means through which they maintain this power (e.g., coercive force; predatory/captive relationships; etc.) • Identify the remaining assets, skills and market activity/economic

	linkages of targeted groups
Refine understanding of group membership and group identity and how they affect vulnerability (e.g., persecution, exploitation)	• Assess how group identity shapes economic/business linkages and levels of trust within these relationships, particularly within key industries • Assess how group identify (ethnic or kinship linkages; Diaspora communities, etc.) can help link communities to better functioning markets (both input and output)
Examine how wider conflict dynamic impacts on institutions and relationships within community; understand processes of dominance, alignment and exclusion	• How has the conflict affected relationships/linkages between actors of particular value chains or geographic cluster? • Examine how the flows of benefits and knowledge between these actors in key value chains • Examine the impact of conflict on relevant local, national, and regional institutions/entities (local/national government, ministries, private sector associations, producer groups, etc.)
Link local processes (e.g., displacement) to political and economic interests and strategies at regional and national levels (e.g., land appropriation, war economy)	• Assess regional and global aspects of conflict and how they affect economy as a whole and particular industries • Identify major enabling environment constraints and opportunities at the local, national, and international levels • Assess the potential socio-economic impact of certain industries/value chains

** source: International Alert (2005c), chapter 1, page 7*

Work has also been started in adapting typical relief responses to conflict situations towards more market development responses. Below is an example.

Table 5. Market Development Responses to Crisis Environment Conditions*

Challenges	Typical Relief Response	Potential Market Development Response
Basic needs (food, shelter, water and sanitation, health) not met	Case or in-kind grants to community groups	• Develop local procurement that promotes SE's • Consider vouchers rather than direct

		delivery (market-oriented relief)
Lack of capital/assets among SE's	Cash or in-kind grants to community groups	• Use matching grants or facilitate links to microfinance for individual enterprises or strong businesses, associations, and cooperatives
Displaced population	Direct delivery of services; skills training for future opportunities based on inadequate understanding of market	• Consider what services/products can be produced by displaced themselves; support them in launching related, feasible businesses • Develop skills training programs that are based on a strong understanding of the market in the return country or host community. • Work with larger enterprises to grow employment opportunities and develop job placement programs for vulnerable populations
Sudden shock to well-functioning commodity or service market	Develop parallel non-profit systems to deliver goods and services	• Subsidize key businesses (large buyers or suppliers to SE's) for short periods, until they can resume operations and doing business with DE's
Devastated infrastructure	Direct reconstruction; tendering to large local firms; short-term cash for work programs	• Prioritize infrastructure to facilitate market development • Reconstruction practices build skills of participants • Cash for work that also involves skill building of participants or utilizes local firms in order to build capacity
Disrupted markets	Direct delivery of services or wait for improved situation	• Re-link market players in ways which improve upon previous relationships • Establish safe havens for business and/or vulnerable groups such as women, so trade can restart
Limited local capacity	Direct delivery of services; skills training with little appreciation of the market	• Use direct delivery methods, but with strategy for disengagement • Better use of market assessments to determine appropriate skill promotion

		• Develop new market linkages with previously disenfranchised people and to new market outlets to bring in skills and capacity from outside through the private sector
Insecure environment	Wait to provide MD services until security improves	• Greater focus on capacity building of local businesses, associations and institutions • Engage the private sector at all levels in peace and reconciliation issues to improve the security situation
Few "high impact" value chains due to the lack of international investment and trade	Wait to implement MD programs	• Focus on lower impact value chains (e.g., rice, rather than cocoa) • Focus on local and regional markets, rather than international markets • Develop supporting services that can be used for current and future activities by SE's as the economy recovers

Source: Nourse et al, 2006

A critical element for integrating value chain elements into conflict situations is coordination. Coordination can help to maximize resources in rapidly evolving crisis situations. GTZ's diagnostic for coordination with other parties on conflict impact assessments could be used to collectively minimize any inadvertent consequences of conflict while maximizing resources. The tool is presented below.

Diagnostic for Coordination with Other Parties[358]

A. Inclusiveness

- Who was involved in the design and planning of the project? Whose views "count"?
- Does the project succeed in consulting as broad a circle of participants as possible in advance? Is it possible to set up management structures involving representatives of different parties to the conflict in certain areas?

B. Transparency

- How does the population perceive the project? What is the project's reputation?
- Is it considered independent? Neutral? Incorruptible?

C. Coordination with other National and International Organizations

- How does the project communicate with other organizations and initiatives in the field? Are there fixed communication channels? How often does the project take part in these?

[358] Source: GTZ (2001b) pp.34-37, GTZ (2001b) pp.34-37

- Does the project use opportunities to establish synergistic relations with other organizations rather than competitive ones and assess where scarce resources can be used jointly?

D. Security

- What security precautions has the project taken? Rules of conduct? Communications equipment? Protection of property?
- Are private guards and security services employed? What is the legal basis for these security services working as they do? Are there links between the security services and the parties in the conflict? Are there links with criminal networks? To which ethnic, religious or political grouping or clan do the security personnel belong? Does this enhance or diminish the security of the project? Is there a possibility that security personnel informally pass on project resources and information to conflict parties?
- Does the project have a security strategy that applies to both international staff and local staff? How are the legitimate security needs of the local staff handled? Are they part of the evacuation strategy?

ANNEX D. STRATEGIC SUBSIDIES

The use of strategic subsidies in supporting economic growth in conflict-affected environments will be a topic of the case studies commissioned under the *Value Chain Development in Conflict-Affected Environments* project. This annex provides some comments on various methods to apply strategic subsidies found in the literature.

Several organizations have experimented with approaches to link relief and development through the use of grants and vouchers, and these initiatives have been well documented.[359] In economies that have been severely distorted by conflict and relief interventions, these mechanisms represent an important opportunity for jump-starting key service and input markets as conflict-affected communities will generally be unable to cover the costs of services and inputs necessary to operate businesses effectively and thereby generate incomes. In addition, the low institutional and technical capacity of service providers often means that their services are not sufficiently beneficial to warrant the fees necessary to cover their operational costs, much less to fund investments in expanding or improving service delivery.

Principles for applying strategic subsidies include the following:

- ensure proper feasibility studies of target enterprises in terms of business models, market potential and institutional capacity
- incorporate appropriate timing and funding amounts into their design might be unsuccessful in addressing the enterprises' assets constraints
- manage expectations of clients, making it clear that these are short-term solutions
- be linked to capacity building of local service providers [360]

General approaches to using grants, vouchers and other funding mechanisms that have been applied or proposed in post-conflict environments include the following:

- identify and target service providers for operational grants to enable them to reduce costs to clients and vouchers for technical and management capacity building
- provide existing or potential MSME clients with vouchers to subsidize initial costs of services and inputs while helping them plan to cover these costs within a certain fixed period of time
- use grants and vouchers to fund meetings, conferences, study tours and other activities to re-establish vertical and horizontal linkages
- provide vouchers to kick-start demand at local markets
- provide input vouchers for seeds, basic agricultural, processing or industrial materials, to be repaid when products are sold
- grants to transport providers, including those in neighboring (transit) countries, to develop transit facilities and services catered to MSMEs, or transport vouchers to MSMEs to access these services
- emergency food vouchers in place of direct food aid
- establish and communicate an exit strategy for this kind of support within a fixed period of time, enabling service providers and clients to account for these costs as part of basic business planning

1. Grants for technical assistance to target populations

In some places, grants have been issued to more stable, less conflict-affected businesses for them to provide technical assistance or training for the reintegration of vulnerable populations, and to create model enterprises for

[359] see Nourse et al 2006, Gerstle and Nourse (2006) pp. 20-22; Miehlbradt and McVay (2006) chapter 7; and SEEP (2006)

[360] Nourse et al (2006)

demonstration effects. For example, relatively strong business have been engaged in providing technical assistance/training in support of the economic reintegration of demobilized soldiers, IDPs or other populations at risk of restarting conflict or with livelihood vulnerability with the support of the AGRIMO program in Mozambique, the Peace Parks Foundation in Southern Africa and the UK-based Ethical Trading Initiative.[361]

Similarly, grants or vouchers have been used to strengthen the capacity of local intermediaries (traders, buyers, etc.) to provide embedded market information on demand criteria and facilitating corresponding technical support to meet this demand. For example, women in Pakistan have been engaged in productive value chain activity through the capacity building of female sales agents to better understand and respond to market demand by managing and training home-bound rural women suppliers.[362]

Support to stronger local firms acknowledges and builds on the existence of remaining enterprises that have been less affected by conflict. The main impediment to this type of programming is that more donor flexibility is required to enable NGOs to channel resources to better-off, less conflict-affected firms which will be able to channel more benefits to smaller enterprises in a sustainable manner.

2. Vouchers for marginalized groups

While the value chain approach prioritizes the upgrading requirements of the industry over the immediate needs of specific populations, design of interventions in conflict-affected environments needs to balance these two objectives by analyzing how specifically vulnerable or marginalized groups fit into value chain dynamics, what constraints and opportunities affect them, and how these can be addressed. In order to engage these marginalized groups in productive or high-potential value chains, vouchers may be provided to women, IDPs, youth, ex-combatants, or other vulnerable or marginalized groups to enable them to access specially targeted training and financial services. For example, some form of vouchers to engage marginalized groups such as IDPs and ex-combatants into value chain work has been done in agriculture in Sudan, dairy in Bosnia-Herzegovina, and handicrafts in Guatemala, livestock and farming in Burundi and DRC,[363] and for vocational skills training in Mozambique and Burundi.[364] Vouchers can be used for inputs such as seeds or livestock or technical and management training. As in any context, training and technical assistance modules or activities should be designed based on a comprehensive assessment of the needs of the targeted value chain as well as the needs of individual enterprises.

3. Vouchers to facilitate service delivery

Vouchers and matching grants have been used to facilitate service delivery in a number of ways. For example, Farmer Field Schools have employed vouchers to facilitate participation in Sierra Leone.[365] Elsewhere, vouchers have been used to strengthen demand for and access to veterinary services and transport.[366] Generally speaking, when utilizing vouchers to facilitate service delivery, one should note the following:

- Interventions must introduce appropriate technologies that can be usefully and easily extended to farmers or entrepreneurs.
- Depending on the scope and intensity of the conflict, access to service providers from neighboring, less conflict-affected areas may need to be facilitated.

---

[361] Nelson (2000)
[362] MEDA/ECDA cited in Nourse et al 2006
[363] Mancino et al (2001)
[364] USAID (2007)
[365] Longley et al (2006); Nourse et al (2006)
[366] Nourse et al (2006)

- Mechanisms for facilitating the delivery of services should when possible be packaged with other mechanism to facilitate upgrading, such as access to credit and capacity building.
- Focusing on cross-sector services will maximize the number of SMEs benefiting.
- In relatively secure environments, business service centers can provide a means of diagnosing service needs and matching service providers with customers.
- If a national extension strategy exists, the approach to service delivery should fit into it.
- Farmer Field Schools have a very low rate of achieving financial sustainability even in stable contexts; the prospect of reaching financial sustainability in conflict-affected, highly impoverished societies is questioned.

4. Asset-replacement mechanisms

Asset replacement mechanisms aim to provide livelihood-generating assets such as tools or other inputs in order to kick-start sustainable livelihoods while contributing to immediate recovery needs. Under the *Tools for Self Reliance* model piloted in Liberia, grants of tool kits are given to service providers in return for their agreement to take on ex-combatants as apprentices.[367] Grants have also been used to restock the inventories of local businesses, input suppliers, service providers, and farmers rather than providing relief supplies directly. OFDA piloted this approach in Bosnia, and it has been replicated in Sierra Leone and Angola with the provision of small livestock to vulnerable farmers.[368]

A credit facility may be provided for producers or manufacturers of goods needed by the local population in the immediate aftermath of war, with loan payments made in kind with the goods produced and distributed to vulnerable families, and with the understanding that a transition to cash payments must occur at an appropriate point.[369] Asset-replacement grants may also carry pre-conditions such as completion of training programs or phased disbursements to encourage re-investment. Grants to SMEs for asset restoration are sometimes also combined with vouchers for business skills training. Principles in their implementation include the following:

- Differentiate beneficiaries according to level of asset loss: individuals with some remaining assets may be eligible for business-development loans while those who have lost all assets are eligible for the basic asset-replacement loans, based on community-validated proposals.[370]
- Re-establish traditional customer-supplier relationships rather than further disrupting them.[371]
- Use a phased disbursement of grants to encourage re-investment.

---

[367] De Klerk (2003)
[368] USAID CMM (2005)
[369] De Klerk (2003)
[370] Mercy Corps in Indonesia, cited in Gerstle and Nourse (2006)
[371] A Mercy Corps project that restocked bakeries in post-conflict Kosovo resulted in 13 of the 14 bakeries operating profitably two years after the close of the project, while another Mercy Corps project in the Horn of Africa which provided emergency survival rations of concentrated livestock feed through veterinary service providers increased demand for locally produced, concentrated livestock feeds and contributed to the revival of for-profit, community-based para-veterinary networks (cited in Miehlbradt and McVay 2006 p. 71).

5. Grants and vouchers for agricultural rehabilitation

Strategic subsidies are well-established mechanisms for agricultural rehabilitation and include vouchers for seed distribution or production and grants for the reconstruction of market feeder roads. Such interventions have been documented by the FAO in Sierra Leone and Afghanistan, by CARE USA in Sudan, and CRS in Uganda.[372] From this experience, recommendations for grants and vouchers for agricultural rehabilitation include:

- The types of seeds and equipment being provided should be considered carefully to ensure that the choice of technology is based on producers' requirements rather than the specifications of technologies availability through local traders.
- The quality control of seeds being procured must be ensured.
- Procurement through local channels should be preferred to external traders when possible, both to maximize benefits to targeted communities and to ensure varietal consistency and product suitability.[373]
- Input fairs need to facilitate accountability between input providers and customers. By procuring specific inputs from specific merchants for seed or input fairs, NGOs limit the choice of inputs, raise the expectations of providers, and eliminate their accountability to the farmers. [374]
- Funding for the rehabilitation of market road networks must be based on a *real understanding of potential market channels* as well as of the national recovery strategy, if such a strategy exists.[375]

6. Demand-stimulating vouchers

Vouchers are sometimes used to kick-start the demand for services in stagnated economies, such as food and input vouchers which enable shops and service providers to continue functioning and maintain their customer base during and following severe shocks and to enable consumers to maintain their purchasing power in the face of livelihoods insecurity. This approach has been documented mostly in relation to food and input vouchers following natural disasters in places such as Indonesia, Kenya, Haiti, Niger, Uganda and Zimbabwe,[376] but is increasingly being applied to stimulate demand for other goods and services. Another form of demand-stimulating intervention is the limited-duration cash transfer, which can be particularly effective in stimulating stronger, more consistent demand for agricultural production.

- Market assessments should be conducted to minimize market distortions.
- In order to offset inflation or other price distortions resulting from increased demands, vouchers can be distributed on a rotating basis, as has been done by CRS in Kenya [377]

7. Vouchers for local development agencies

Vouchers may be provided to local development agencies offering services such as creating/maintaining job banks, entrepreneurship training, market research, business plan preparation; business registration services, facilitation of regional and international trade initiatives, and promotion of non-financial business development services. Principles include the need for these agencies to be coordinated with Ministry of Labor, Employment, or other relevant public sector institutions.[378]

---

[372] See for example Longley et al (2006); Mancino (2001); Miehlbradt and McVay (2006)

[373] Longley et al (2006) pp.22-23. Other attempts at funding local production (rather than external procurement) of simple equipment such as tools, seed drying floors and seed storage banks have not been found to be sustainable (ibid).

[374] ibid.

[375] Longley et al (2006) p.26.

[376] Oxfam 2001 cited in Miehlbradt and McVay (2006)

[377] Miehlbradt and McVay (2006) p.68

[378] Date-Bah (2003), Krishnamurty (2003)

8. Grants for ICT

Grants are sometimes provided to business owners to enable them to access expanded ICT and mobile phone networks. This may be integrated with vocational training or may carry conditions such as a commitment to employ demobilized soldiers. In Somalia, one of the three main telecommunications companies, NationLink, collaborated with donors to establish an ICT training program targeting ex-child soldiers as part of a rehabilitation and reintegration program as part of a widespread private-sector commitment to DDR, stabilization and growth and as a way of responding to the needs of local businesses for trained employees.[379]

Several of these interventions specifically address SME development as a means of affecting conflict-mitigating or transforming results, rather than for purely economic benefits. While it may fit more into the mandate of some implementing organizations to use these mechanisms to work *on the issue of* conflict—such as through grants to fund internship and training programs to integrate minority groups into majority-dominated companies—these initiatives nevertheless have significant potential to contribute to value chain strengthening and should be integrated into the design of economic development programs.

The value chain approach helps us to shift the focus from interventions that are the easiest to design and implement based on obvious and immediate needs of specific firms, to those that will facilitate longer-term, industry development, and therefore channel benefits back to communities and reduce the likelihood of re-emergence of conflict. Value chain analysis can also help us to identify which service providers have the incentives to provide services in a sustainable manner. This will maximize the market-orientation and sustainability of intervention strategies.

[379] Warsame Yusuf (2005)

ANNEX E: BIBLIOGRAPHY

1. ECONOMIC CONSEQUENCES OF CONFLICT

Barrett, C. (2006) "Food Aid's Intended and Unintended Consequences. *Background Paper for FAO State of Food and Agriculture 2006* (March 2006 Revised Edition)

Blomberg, S. and Hess, G. (2001) "The Temporal Links between Conflict and Economic Activity" *Journal of Conflict Resolution* 46:1 pp.75-96 http://siteresources.worldbank.org/DEC/Resources/temp_links_between_conflict_econactivity.pd

Blomberg, S. and Hess, G. (2006) "On the Conflict-Poverty Nexus: *Economics and Politics* V.18 Issues 3 pp.237-67.

Bruck (2003) "The Welfare Effects of Farm Household Activity Choices in Post-War Mozambique" *Paper submitted to the Annual Meeting of the German Economic Association.* http://www.socialpolitik.de/tagungshps/2004/Papers/Brueck.pdf

Cater (2003) ("The Political Economy of Conflict and UN Intervention: Rethinking the Critical Cases of Africa" in Ballentine and Sherman (2003) *The Political Economy of Armed Conflict: Beyond Greed and Grievance.*

Collier, P. (1999) "On the Economic Consequences of Civil War" Oxford Economic Papers 51.

Collier, P., et al. (2003) "Breaking the Conflict Trap: Civil War and Development Policy" Policy Research Report, WB/Oxford UP
http://www- wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2003/06/30/000094946_0306190405396/Rendered/PDF/multi0page.pdf
http://econ.worldbank.org/prr/CivilWarPRR/

Cremer, G. (1998) "On the Problem of Misuse in Emergency Aid" *Journal of Humanitarian Assistance* June 1998.

Davies, R (1995) "Economic Implications of Humanitarian Aid in War-Torn Areas and Poor Host Countries" in *Journal of International Relations* v.3 n.1 49-59

Duffield, M. (1994a) "Complex Emergencies and the Crisis of Developmentalism" IDS Bulletin Vol 25 http://www.ids.ac.uk/ids/bookshop/classics/duffield_25(4).pdf

Duffield, M. (1994b) "The Political Economy of Internal War: Asset Transfer, Complex Emergencies and International Aid" in J. Macrae and A. Zwi (eds) *War and Hunger: Rethinking International Responses to Complex Emergencies.* London and NJ: Zed Books in association with Save the Children Fund (UK)

Fitzgerald, V. (1998) "Vulnerable Economies and the International Political Economy of Conflict" in *War and Underdevelopment: The Economic and Social Consequences of Conflict* vol. 1. F. Stewart and V. Fitzgerald, eds. Oxford UP

Fitzgerald, V. (1997) "Paying for the War: Macroeconomic Stabilization in Poor Countries Under Conflict Conditions" *Oxford Development Studies 25(1):43-65*

Goodhand, J. (2001a) *Violent Conflict, Poverty and Chronic Poverty*. CPRC Working Paper 6. Chronic Poverty Research Center, University of Birmingham http://www.chronicpoverty.org/pdfs/06Goodhand.pdf

Grobar, L. M. and Gnanaselvam, S. (1993) "The Economic Effects of the Sri Lankan Civil War" *Economic Development and Cultural Change* 41:2 pp.395-405.

Gupta, S. et al (2002) "Fiscal Dimensions of Armed Conflict in Low- and Middle-Income Countries" Paper prepared for the Workshop on the Economic Consequences of Global Terrorism June 14-15 2002. IMF.

Gyimah-Brempong, K, M. Corley (2004) *Civil Wars and Economic Growth in Sub-Saharan Africa* http://www.wider.unu.edu/conference/conference-2004-1/conference percent202004-1-papers/Gyimah-Brempong-Corley-2704.pdf

Hoeffler, A. and M. Reynal-Querol (2003) *Measuring the Costs of Conflict. http://users.ox.ac.uk/~ball0144/hoereyque.pdf*

Humphreys, M. (2003) *Economics and Violent Conflict.* Paper prepared for the Program on Humanitarian Policy and Conflict Research, Harvard UP, February http://www.preventconflict.org/portal/economics/Essay.pdf

Humphreys, M. (2005) "Natural Resources in Armed Conflicts: Issues and Options" in Ballentine, K. and H. Nitzschke (eds) (2005) *Profiting from Peace: Managing the Resource Dimensions of Civil War.* International Peace Academy.

Imai, K. and J. Weinstein (2000) "Measuring the Economic Impact of Civil War" Center for International Development Working Paper 51. http://www.cid.harvard.edu/cidwp/051.htm

Kang, S. and J. Meernik (2005) "Civil War Destruction and the Prospects for Economic Growth" *Journal of Politics* 67:1 pp.88-109

Keen, D. (2000) "Incentives ad Disincentives for Violence" in Berdal and Malone (eds) *Greed and Grievance: Economic Agendas in Civil Wars* Boulder: Lynne Rienner

Keen, D. (1998) "The Economic Functions of Violence in Civil Wars" Adelphi Paper no 320 (July) London: International Institute for Strategic Studies

Keen, David (2001) "The Political Economy of War" in Stewart and Fitzgerald (eds) (2001)

Lock, P. (2005) "War Economies and the Shadow of Globalization" in Fischer and Schmelzle (eds) *Transforming War Economies: Dilemmas and Strategies.* Berghof Handbook Dialogue Series.)

Luckham, R., et al (2001) "Conflict and Poverty in Sub-Saharan Africa" An Assessment of the Issues and Evidence" IDS Working Paper 128 http://www.ids.ac.uk/ids/bookshop/wp/wp128.pdf

Murdoch, J. and Sandler, T. (2002a) "Economic Growth, Civil Wars and Spatial Spillovers" *Journal of Conflict Resolution* 46:1 pp.91-110.

Murdoch, J. and Sandler, T. (2002b) "Civil Wars and Economic Growth: A Regional Comparison" *Defense and Peace Economics* 3:6 pp. 451-64

Rajendran, S. et al (2006) *The Impact of Armed Conflict on Male Youth in Mindanao, Philippines.* World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper # 35

Rodrik, D. (1997) "Globalization, Social Conflict and Economic Growth" http://ksghome.harvard.edu/~drodrik/global.PDF

Rodrik, D. (1999) "Where Did All the Growth Go? External Shocks, Social Conflict and Growth Collapses" *Journal of Economic Growth* V.4 N.4

Rubin et al (2001)Regional Conflict Formation in the Great Lakes Region of Africa: Structure, Dynamics and Challenges for Policy

Stewart, F. and V. Fitzgerald (eds) (2000) *War and Underdevelopment: the Economics and Social Consequences of Conflict.* Oxford: Oxford UP

Stewart, F., et al (1997) "Civil Conflict in Developing Countries over the Last Quarter of a Century: An Empirical Overview of Economic and Social Consequences Oxford Development Studies Special Issue 25:1 pp.11-41.

2. ECONOMIC CAUSES OF CONFLICT AND THE 'CONFLICT-POVERTY TRAP'

Ballantine, K. and J. Sherman (2003) *The Political Economy of Armed Conflict:Beyond Greed and Grievance.* Boulder, CO: Lynne Rienner

Berdal, M. and Malone, D. (eds) (2000) *Greed and Grievance: Economic Agendas in Civil Wars*

Collier, P. (2000) "Economic Causes of Civil War and their Implications for Policy" http://siteresources.worldbank.org/DEC/Resources/econonmic_causes_of_civilwar.pdf

Collier, P. and A. Hoeffler (1998) "On Economic Causes of Civil War" *Oxford Economic Papers* 50 (October): 563-73

Collier, P. and A. Hoeffler (2002) "On the Incidence of Civil War in Africa" *Journal of Conflict Resolution* 46 (February): 13-28

Collier, P. and A. Hoeffler (2001) "Greed and Grievance in Civil War" World Bank http://www.worldbank.org/research/conflict/papers/greedgrievance_23oct.pdf

Cramer, C. (2001) "Economic Inequalities and Civil Conflict" SOAS CDPR Discussion Paper No. 1501 http://www.soas.ac.uk/cdprfiles/dp/Dp15cc.pdf

de Soysa, I. (2002) "Paradise is a Bazaar? Greed, Creed and Governance in Civil War, 1989-99" *Journal of Peace Research* v.39 N.4

DiJohn, J. (2002) "Mineral Resource Abundance and Violent Political Conflict: A Critical Assessment of the Rentier State Model," LSE Crisis States Programme, Working Paper No. 20, December http://www.crisisstates.com/download/wp/WP20JDJ.pdf

Elbadawi, I. and N. Sambanis (2002) "How Much War Will We See? Explaining the Prevalence of Civil War." *Journal of Conflict Resolution* 46 (June):307-34* http://siteresources.worldbank.org/DEC/Resources/How_much_war_will_we_see.pdf

Fearon, J. (2005) "Primary Commodity Exports and Civil War" *Journal of Conflict Resolution* 49:4 pp. 483-507 http://www.stanford.edu/~jfearon/papers/sxpfinal.pdf

Kanbur, R. (2007) *Poverty and Conflict: The Inequality Link*. International Peace Academy Working Paper June 2007. http://www.ipacademy.org/asset/file/189/mgs-povr.pdf;

Moore, M. (1998) "Death Without Taxes: Democracy, State Capacity and Aide Dependence in the Fourth World" in M. Robinson and G. White (eds) *The Democratic Developmental State: Politics and Institutional Design. Oxford Studies in Democratisation,* Oxfor: Oxford UP.

Nafziger, E., et al (eds) (2000) *War, Hunger, and Displacement: Volume 1: The Origins of Humanitarian Emergencies; Volume 2: Weak States and Vulnerable Economies: Humanitarian Emergencies in Developing Countries.* Oxford: Oxford UP for UNU/WIDER

Reynal-Querol, M. (2002) "Ethnicity, Political Systems and Civil War" *Journal of Conflict Resolution* V.46 N.1

Rice, S., C. Graff, and J. Lewis (2006) *Poverty and Civil War: What Policymakers Need to Know.* Brookings Institute Global Economy and Development Working Paper #2 http://www.brookings.edu/views/papers/rice/poverty_civilwar.pdf

Ross, M. (2002) "Oil, Drugs, and Diamonds: How Do Natural Resources Vary in their Impact on Civil War?" in Ballentine and Sherman (eds) (2003) *The Political Economy of Armed Conflict: Beyond Greed and Grievance* Working paper: UCLA University Press: http://www.polisci.ucla.edu/faculty/ross/OilDrugs.pdf

Sambanis, N. (2001) "Do Ethnic and Nonethnic Civil Wars have the Same Causes?" *Journal of Conflict Resolution* V.45 N.3

Urdal, H. (2004) The Devil in the Demographics: The Effect of Youth Bulges on Domestic Armed Conflict, 1950-2000. World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper #14

Varshney, A. (2002) Ethnic Conflict and Civic Life: Hindus and Muslims in India New Haven: Yale UP

Winer, J. (2002) *Illicit Finance and Global Conflict* FAFO Report #380. http://www.fafo.no/pub/rapp/380/380.pdf

3. CONFLICT AND POST-CONFLICT ECONOMIC DEVELOPMENT – TOOLS AND RESOURCE GUIDES

A. PRIVATE SECTOR TOOLS

Business Leaders Initiative on Human Rights, United Nations Global Compact, and the Office of the United Nations High Commissioner for Human Rights *A Guide for Integrating Human Rights into Business Management.* http://www.blihr.org/Pdfs/GIHRBM.pdf

Campbell, A. (2002) *The Private Sector and Conflict Prevention Mainstreaming: Risk Analysis and Conflict Impact Tools for Multinational Corporations* Carleton University and NPSIA Country Indicators for Foreign Policy

De Luca, L. (2003) *Business and Decent Work in Conflict Zones: A 'Why' and 'How' Guide.* ILO: Geneva

Goldwyn, R. and J. Switzer (2003) *Assessments, Communities and Peace – A Critique of Extractive Sector Assessment Tools from a Conflict Sensitive Perspective* IISD & International Alert http://www.iisd.org/pdf/2005/security_ogel_2004.pdf

Gossen, R. et al. (2002) *A Business Guide to Conflict Impact Assessment and Risk Management* Ottawa: UN Global Compact http://www.unglobalcompact.org/docs/issues_doc/7.2.3/BusinessGuide.pdf

International Alert (2005a) *Conflict-Sensitive Business Practice: Guidance for Extractive Industries.*

http://www.iisd.org/pdf/2005/security_conflict_sensitive_business.pdf

International Alert (2005b) "Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector" http://www.international-alert.org/our_work/themes/LBLP.php#download

Kanagaretnam, P. and S. Brown (2005) *Business, Conflict and Peacebuilding: An Operational Framework*. Canadian Peacekeeping Press: Pearson Peacekeeping Centre http://cpr.web.cern.ch/cpr/library/Tools/Bus_Conf_PB_Frmwk.pdf

Nelson, J. (2000) *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution* International Alert Council on Economic Priorities

B. CONFLICT ASSESSMENTS

Bush, K. (1998) *A Measure of Peace: Peace and Conflict Impact Assessment (PCIA) of Development Projects in Conflict Zones* a Peacebuilding and Reconstruction Program Initiative Working Paper No 1 March 1998 (Ottawa: IDRC)

Collaborative Learning Projects (2004) *The Do No Harm Handbook (The Framework for Analyzing the Impact of Assistance on Conflict)* A Project of the Collaborative for Development Action, Inc. and CDA Collaborative Learning Projects

DFID (2006) *Guidance Notes for Conducting Conflict Assessments* http://www.dfid.gov.uk/pubs/files/conflictassessmentguidance.pdf

GTZ (2001b) *Conflict Impact Assessment for Development Projects: A Practical Guideline* http://www.gtz.de/de/dokumente/en-crisis-cia-2001.pdf

International Alert (2005c) *Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding: A Resource Pack : Chapter 2: Conflict Analysis* http://www.international-alert.org/conflict_sensitivity/resource_pack.html

Sardesai, S. and Wam, P. (2002) *The Conflict Analysis Framework: Identifying Conflict Related Obstacles to Development*. World Bank Dissemination Note 5, Conflict Prevention and Reconstruction Unit. http://lnweb18.worldbank.org/ESSD/sdvext.nsf/67ByDocName/TheConflictAnalysisFrameworkCAFIdentifyingConflict-relatedObstaclestoDevelopment/$FILE/CPR+5+final+legal.pdf

UNDG/ECHA (2004) *Interagency Framework for Conflict Analysis in Transition Situations*

USAID (2005) *Conducting a Conflict Assessment: A Framework for Strategy and Program Development*. USAID Conflict Management and Mitigation Office.
http://pdf.dec.org/pdf_docs/PNADD459.pdf
http://www.usaid.gov/our_work/cross-cutting_programs/conflict/publications/docs/CMM_Livelihoods_and_Conflict_Dec_2005.pdf

World Bank *Conflict Assessment Framework* www.worldbank.org/conflict

C. OPERATIONAL GUIDES

Alidri, P., et al (2002) *Introduction to Microfinance in Conflict-Affected Communities*. Geneva: ILO and UNHC

American Refugee Committee International (??) *The Stepped Approach for Improving Livelihoods (SAIL): An Implementation Manual for Refugee Camp & Post-Conflict Environment Programs*

Anderson, M. (2000) *Options for Aid in Conflict: Lessons from Field Experience*. Collaborative for Development Action, Inc.
http://www.cdainc.com/publications/dnh/options/OptionsManual.pdf

Anderson, M. (1999) *Do No Harm: How Aid Can Support Peace – or War* Boulder, CO: Lynne Rienner Publishers.

Becker, S. (2006) *Private Sector Development in Reintegration and Reconstruction*. GTZ Sector Project Innovative Tools for Private Sector Development
http://www.bdsknowledge.org/dyn/bds/docs/556/GTZ percent20PSD percent20Reintegration percent20Reconstruction percent202006.pdf

Body, T. (2005) *Reintegration of Ex-Combatants through Micro-Enterprise: An Operational Framework*. Canadian Peacekeeping Press: Pearson Peacekeeping Centre

Boudreau, T. (ed) *The Practitioners' Guide to the Household Economy Approach*. Regional Hunger and Vulnerability Programme, Food Economy Group, and Save the Children

Douglas, I. et al (2004) *Disarmament, Demobilization and Reintegration: A Practical Field and Classroom Guide*. GTZ, the Norwegian Defense International Centre, the Pearson Peacekeeping Centre, and the Swedish National Defense College.
http://www.fhs.se/upload/DDRHandbook.pdf

Ducci, M. (1997) *Guidelines for Employment and Skills Training in Conflict-Affected Countries*. ILO Action Programme on Skills and Entrepreneurship Training for Countries Emerging from Armed Conflict
http://www.ilo.org/public/english/employment/skills/training/publ/pub21.htm

Gasser, et al (2004) *Local Economic Development in Post-Crisis Situations: Operation Guide*. InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO

GTZ (2001a) *Conflict Analysis for Project Planning and Management: A Practical Guideline*
http://www.gtz.de/de/dokumente/en-crisis-conflictanalysis-2001.pdf

ILO (2002) *Generic Crisis Response Modules*. ILO Recovery and Reconstruction Unit. Geneva: ILO

ILO (2002) *Crisis Response – Rapid Needs Assessment Manual*. Recovery and Reconstruction Unit. Geneva: ILO

International Alert (2005c) *Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding: A Resource Pack*
Chapter 3: Applying Conflict Sensitivity at the Project and Programme Level
Chapter 4: Integrating Conflict Sensitivity into Sectoral Approaches
Chapter 5: Institutional Capacity Building for conflict Sensitivity
http://www.international-alert.org/conflict_sensitivity/resource_pack.html

Miehlbradt, A. and M. McVay (2006) *BDS Reader 2006* Chapter 7 – Relief to Development in Crisis-Affected Economies. ILO Training Center, Annual BDS Seminar.
http://www.bdsknowledge.org/dyn/bds/docs/497/PSDReader2006.pdf

Nelson (2001) *Learning from Clients Assessment Tools for Microfinance Practitioners*. SEEP-AIMS
http://www.bwtp.org/arcm/mfdm/Web percent20Resources/Advanced percent20MF percent20Resources/Learning percent20from percent20Clients percent20- percent20Assessment percent20tools percent202001 percent20(SEEP-AIMS).pdf

Parnell, E. (2001) *The Role of Cooperatives and other Self-Help Organizations in Crisis Resolution and Socio-Economic Recovery* ILO, Cooperative Branch and IFP/Crisis (InFocus Programme on Crisis Response and Reconstruction.)

SPHERE (2004) *Humanitarian Charter and Minimum Standards in Disaster Response Handbook*. SPHERE Project.

Tutnjevic, T. (2003) *Gender in Crisis Response: A Guide to the Gender – Poverty – Employment Link* Geneva: ILO

UNDG, UNDP, World Bank (2004) *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situation.* United Nations and World Bank. http://siteresources.worldbank.org/INTCPR/1090494-1115612329180/20482302/PCNA.Tool.pdf

UNDP (2003) *Conflict-related Development Analysis (CDA)* UNDP Bureau for Crisis Prevention and Recovery http://www.undp.org/bcpr/documents/prevention/integrate/CDA_complete.pdf

USAID (2005) *Livelihoods and Conflict: A Toolkit for Intervention* Office of Conflict Management and Mitigation

USAID (2007) *Community-Based Development in Conflict-Affected Areas: An Introductory Guide for Programming* http://www.usaid.gov/our_work/cross-cutting_programs/conflict/publications/docs/CMM_CBD_Guide_May_2007.pdf

USAID (2008) *Towards Integrating Conflict-sensitive Approaches*, Gündüz, Canan and Klein, Diana, http://www.international-alert.org/pdf/mR_101_C-S_Approaches_to_Value_Chain.pdf, USAID, microReport #101

4. CONFLICT AND POST-CONFLICT ECONOMIC RECOVERY AND DEVELOPMENT—RESEARCH AND ANALYSIS

A. ECONOMIC RECOVERY, LIVELIHOODS DEVELOPMENT AND CONFLICT TRANSFORMATION

Achio, F. and I. Specht (2003) "Youth in Conflict" in Date-Bah, E. (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO pp.153-67

Addison (2003) *Africa's Recovery from Conflict: Making Peace Work for the Poor.* UNU/WIDER; International

Ballentine, K. and J. Sherman (eds) (2003) *The Political Economy of Armed Conflict: Beyond Greed and Grievance* Boulder, Colorado: Lynne Rienner

Ballentine, K. and H. Nitzschke (2006) "The Political Economy of Civil War and Conflict Transformation." in *Transforming War Economies: Dilemmas and Challenges*. M. Fischer and B. Schmelzle (eds). Berghof Handbook Dialogue Series

Bannon, I. and P. Collier, (eds.) (2003) *Natural Resources and Violent Conflict.* Washington DC: The World Bank http://www1.worldbank.org/publications/pdfs/15503frontmat.pdf

Barcia, P. and E. Date-Bah (2003) "Skills Training Challenges in Post-Conflict Contexts" in Date-Bah, E. (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO: InFocus Programme on Crisis Response and Reconstruction.

Barron, P. et al (2004) Understanding Local Level Conflict in Developing Countries: Theory, Evidence and Implications from Indonesia. Social Development Papers Conflict Prevention & Reconstruction Paper No. 19 December.

Beasley, K. (2006) *Job Creation in Postconflict Societies*. USAID Center for Development Information and Evaluation Issues Paper No. 9 http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1277&context=key_workplace

Bodewig, C. (2002) *Emerging from Ethnic Conflict: Challenges for Social Protection Design in Transition Countries*. World Bank Institute Social Protection Discussion Papers, Social Development Unit, World Bank. http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Safety-Nets-DP/0229.pdf

Boge, V. and A. Spelten (2006) "The Challenge of War Economies: The Role of the International Community and Civil Society Organizations" in *Transforming War Economies: Dilemmas and Challenges*. M. Fischer and B. Schmelzle (eds). Berghof Handbook Dialogue Series

Boudreau, T. and Coutts, P. (2002) *Food Economy in Situations of Chronic Political Instability* ODI Working Paper 188 http://www.odi.org.uk/publications/working_papers/wp188_pgs1_14.pdf

Byrd, W. (2001) 'Aid Management during Post-Conflict Reconstruction: Lessons from International Experience' Conference on Preparing for Afghanistan's Reconstruction, Islamabad (27-29 Nov) Washington DC: The World Bank http://lnweb18.worldbank.org/sar/sa.nsf/Countries/Afghanistan/0C4F54EACB53352985256B110022BD5D?OpenDocument

Carbonnier, G. (1998) *Conflict, Postwar Rebuilding and the Economy: A Critical Review of the Literature* Occasional Paper No. 2 UNRISD and War-Torn Societies Project, Geneva *

Chronic Poverty Research Centre (2007) *Social Protection Transfers for Chronically Poor People.* Policy Brief #2 February.

Cliffe, S., at al (2003) *Community-Driven Reconstruction as an Instrument in War-to-Peace Transitions* World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper # 7

Colletta, N. and M. Cullen (2000) *Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala and Somalia.* International Bank for Reconstruction and Development/World Bank.

Collinson, S. (ed) (2003) *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action* (HPG Report 13) London: ODI http://www.odi.org.uk/hpg/papers/hpgreport13.pdf

Consultative Group to Assist the Poor (2006), *Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services*, Focus Note #34, February. http://www.cgap.org/gm/document-1.9.2586/FocusNote_34.pdf

Date-Bah E. (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO

Date-Bah, E. (2003) "Women and other Gender concerns in Post-Conflict Reconstruction and Job Promotion Efforts." in Date-Bah, E. (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO pp.111-152

Date-Bah, E. and E. Hall (2003) "Promoting Income-generating activities among Refugees: A Case Study" in Date-Bah, E. (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO pp.167-92

De Soysa, I. and N.P. Gleditsch (1999) *To Cultivate Peace: Agriculture in a World of Conflict* PRIO Report 1/99 Oslo: Inter

De Waal, A. (1997) *Famine Crimes: Politics and the Disaster Relief Industry in Africa* in J. Macrae and A. Zwi (eds) *War and Hunger: Rethinking International Responses to Complex Emergencies.* London and NJ: Zed Books in association with Save the Children Fund (UK) http://www.prio.no/files/file38004_to_cultivate_peace_agriculture_in_a_world_of_conflict.pdf?PHPSESSID=315f1fa5a45dfb47720a5a7a0b5278ce

de Watteville, N. (2002) *Addressing Gender Issues in Demobilization and Reintegration Programmes* World Bank Africa Region Working Paper Series. Washington DC: World Bank

Duffield, M. (1997) "NGO Relief in War Zones: Towards an Analysis of the New Aid Paradigm" *Third World Quarterly 18:3): 527-42*

Dunne, J.P. (2003) "Challenges of Armed Conflicts to Jobs and other Socio-Economic Issues in Africa: in Date-Bah (E.) (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO pp.33-52

El-Bushra, J., A. El-Karib, and A. Hadipateras (2002) *Gender-Sensitive Programme Design and Planning in Conflict-Affected Situations.* London: Agency for Cooperation and Research in Development http://www.acord.org.uk/Publications/G&CResearch/ACORD percent20Gender percent20and percent20Conflict percent20Research percent20Report.pdf

Elbadawi, I. (1999) *Civil Wars and Poverty: the Role of External Interventions, Political Rights and Economic Growth.* World Bank Development Economic Research Group http://siteresources.worldbank.org/DEC/Resources/civilwars_and_poverty.pdf

Fagen, P. and M. Bump (2006) "Remittances in Conflict and Crises: How Remittances Sustain Livelihoods in War, Crises and Transitions to Peace.*" International Peace Academy Policy Paper. February 2006.*

Faye, M. et al (2004) "The Challenges Facing Landlocked Developing Countries" *Journal of Human Development* 5:1 (March 2004)

Fearon, J. (2005) "Primary Commodity Exports and Civil War" *Journal of Conflict Resolution* 49:4 pp. 483-507 http://www.stanford.edu/~jfearon/papers/sxpfinal.pdf

Fischer, M. and B. Schmelzle, eds (2006) *Transforming War Economies: Dilemmas and Challenges* Berghof Handbook Dialogue Series

Flores, T. and I. Nooruddin (2006) *Democracy Under the Gun: Understanding Postconflict Economic Recovery* http://psweb.sbs.ohio-state.edu/faculty/nooruddi/research/flores&nooruddin.pdf

Flores, T. and I. Nooruddin (2007) "Evaluating World Bank Post-Conflict Assistance Programs" Paper presented at the 65th annual meeting of the Midwest Political Science Association 11-15 April 2007.

Gaigals, C. and M. Leonhardt (2001) *Conflict-Sensitive Approaches to Development: A Review of the Practice* http://www.bellanet.org/pcia/documents/docs/conflict-sensitive-develop.pdf

Gerstle, T. and T. Nourse (2006) *Market Development During and Post-Conflict: Emerging Lessons for Pro-Poor Economic Reconstruction.* SEEP Network Market Development Working Group. http://www.usaid.gov/iraq/contracts/pdf/Market_development_post-conflict.pdf

Goodhand, J. and P. Atkinson (2001) *Conflict and Aid: Enhancing the Peacebuilding Impact of International Engagement: A Synthesis of Findings from Afghanistan, Liberia and Sri Lanka.* International Alert, Development and Peacebuilding Programme
http://www.reliefweb.int/training/IA-Conflict-01oct.pdf

Goovaerts, P., M. Gasser and A. B. Inbal (2005) *Demand-Driven Approaches to Livelihood Support in Post-War Contexts: A Joint ILO-World Bank Study.* World Bank Social Development Papers Conflict Prevention and Reconstruction Community-Driven Development Paper No.29 October 2005
http://siteresources.worldbank.org/INTCDD/214574-1107382173398/20877452/WP29_Web.pdf

Grootart, C. and T. van Bastelaer (2001) *Measuring Social Capital: A Synthesis of Findings and Recommendations from the Social Capital Initiative.* Social Capital Initiative Working Paper No. 24. World Bank.

Harris, G. (1999) *Recovery from Armed Conflict in Developing Countries.* London and New York: Routledge.

Harvey, P. (1997) *Rehabilitation in Complex Political Emergencies: Is Rebuilding Civil Society the Only Answer?* IDS Working Paper 60. Brighton: IDS

Higazi, A. (2003) *Dilemmas and Definitions in Post-Conflict Rehabilitation* European Centre for Development Policy Management (ECDPM), Maastricht
http://ec.europa.eu/development/body/publications/courier/courier198/en/en_028_ni.pdf

IRC (2007) *Lessons Learned on Community Driven Reconstruction Version 1.* IRC Post-Conflict Development Initiative. Revised Draft February 2007.

Jackson, S. (2005) "Protecting Livelihoods in Violent Economies" in K. Ballentine and H. Nitzschke (2005) *Profiting from Peace: Managing the Resource Dimensions of Civil War.* New York: IPA

Jaspars, S. and J. Shoham (2002) *A Critical Review of Approaches to Assessing and Monitoring Livelihoods in Situations of Chronic Conflict and Political Instability* Working Paper 191. ODI
http://www.odi.org.uk/publications/working_papers/wp191.pdf

Junne, G. and W. Verkoren (eds.) (2004) *Postconflict Development: Meeting New Challenges.* Boulder, CO: Lynne Rienner Publishers

Keen, D. and K. Wilson (1994) "Engaging with Violence: A Reassessment of Relief in Wartime." in J. Macrae and A. Zwi (eds) *War and Hunger: Rethinking International Responses to Complex Emergencies* *

Krishnamurty, J. (2003) "The Labour Market and Conflict" in Date-Bah (E.) (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO pp.53-72.

Le Billon, P. (2000a) *The Political Economy of War: What Relief Agencies Need to Know* (Humanitarian Policy Network Paper 33) London: ODI

Le Billon, P. (2000b) *The Political Economy of War: An Annotated Bibliography (London: ODI)*

Le Billon, P. (2001) "The political ecology of war: Natural resources and armed conflict," *Political Geography* 20 pp. 561-584 http://www.geog.ubc.ca/~lebillon/ecowar.pdf

Le Billon, P. (2005) "Fuelling War: Natural Resources and Armed Conflicts" Adelphi Paper No. 373, London: International Institute for Strategic Studies http://www.geog.ubc.ca/~lebillon/adelphi357.pdf

Lederach, J.P. (1997) *Building Peace: Sustainable Reconciliation in Divided Societies* Washington DC: USIP

Lock, P. (2006) "War Economies in the Shadow of Globalization" in *Transforming War Economies: Dilemmas and Challenges*. M. Fischer and B. Schmelzle (eds). Berghof Handbook Dialogue Series

Longley, C., I. Christoplos and T. Slaymaker (2006) *Agricultural Rehabilitation: Mapping the Linkages between Humanitarian Relief, Social Protection and Development.* ODI Humanitarian Policy Group Research Report 22. London: ODI.

Longley, C. and D. Maxwell (2003) *Livelihoods, Chronic Conflict and Humanitarian Response: A Synthesis of Current Practice*. ODI Working Paper 182 http://www.odi.org.uk/Publications/working_papers/wp182.pdf

McVay, M. (2005) *BDS in Conflict Environments—Neglected Potential?* http://www.bdsknowledge.org/dyn/bds/docs/366/SEEP percent20Thinkpiece-BDS percent20in percent20Conflict percent20Environments percent20- percent20f.pdf

Mancino, K., A. Malley and S. Cornejo (2001) *Developmental Relief: NGO Efforts to Promote Sustainable Peace and Development in Complex Emergencies* Interaction Transition Working Group http://60gp.ovh.net/~ngovoice/documents/InterAction_US_report.pdf

Mendelson-Forman, J. and M. Mashatt (2007) *Employment Generation and Economic Development in Stabilization and Reconstruction Operations*. United States Institute of Peace: Stabilization and Reconstruction Series No. 6 http://www.usip.org/pubs/specialreports/srs/srs6.pdf

Moore, D. (2000) "Leveling the playing fields & embedding illusions: 'post-conflict' discourse & neo-liberal 'development' in war-torn Africa" *Review of African Political Economy*, V27:83 March 2000

Moser, C. (2005) *Assets, Livelihoods, and Social Policy*. Working Paper prepared for the World Bank Conference: *New Frontiers in Social Policy*, Arusha, December 12-15, 2005. http://siteresources.worldbank.org/INTRANETSOCIALDEVELOPMENT/Resources/Moserpaperrev2.pdf

Morfit, M. (2002) "Rebuilding Social Capital: A Framework for Assistance in Post-Conflict Societies." In *Beyond Chaos: Development After Conflict. Developing Alternatives* v8:i1 summer 2002.

ODI (2004) *The Changing Roles of Agricultural Rehabilitation: Linking Relief, Development, and Support to Rural Livelihoods* http://www.odi.org.uk/wpp/publications_pdfs/Agricultural_rehabilitation.pdf

Nourse, T. et al (2006) Market Development in Crisis-Affected Environments: Emerging Lessons for Achieving Pro-Poor Economic Reconstruction

Peppiatt, D., J. Mitchell and P. Holzmann (2001) *Cash Transfers in Emergencies: Evaluating Benefits and Assessing Risk*. ODI-HPN Network Paper No.35. http://www.odihpn.org/documents/networkpaper035.pdf

Perecman, E. (2005) "Towards an Understanding of Coping Strategies of Vulnerable Individuals and Communities Facing the Aftermath of Crises" in ILO (2005) HEI-ILO Research Programme on

Strengthening Employment in Response to Crises Synthesis Report and Case Studies: Volume 2: Promoting Livelihood and Coping Strategies of Groups Affected by Conflicts and Natural Disasters. Pp. 1-43.

Pingle, V. (2005) *Micro-businesses and sustainable livelihoods.* Paper presented for the World Bank Conference 'New Frontiers of Social Policy.;

Pretty, J. *Social Capital and Sustainable Livelihoods* Centre for Environment and Society, University of Essex

Pugh, M. et al (2004) *War Economies in a Regional Conflict: Challenges of Transformation.* International Peace Academy Occasional Paper Series

Schafer, J. (2002) *Supporting Livelihoods in Situations of Chronic Conflict and Political Instability: Overview of Conceptual Issues* ODI Working Paper 183 http://www.reliefweb.int/rw/lib.nsf/db900SID/LHON-66MHJZ/$FILE/Livelihood_in_conflict_ODI_Dec_2002.pdf?OpenElement

Schmeidl, S. (2002) *Gender and Conflict Early Warning: A Framework for Action* International Alert http://www.international-alert.org/women/publications/EWGEN.PDF

Shepherd, A., R. Marcus, and A. Barrientos (2004) *Policy Paper on Social Protection.* ODI. Final Draft

Shepard, S., R. Hill et al (2005) *The Economic Impact of Shelter Assistance in Post-Disaster Settings.* CHF International and USAID/OFDA

Specht, I. (2003) "Jobs for Rebels and Soldiers" in Date-Bah (E.) (ed) (2003) *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle.* ILO InFocus Programme on Crisis Response and Reconstruction. Geneva: ILO pp. 73-110.

Steward, F. (1999) *Crisis Prevention: Tackling Horizontal Inequalities* Working Paper no. 33 QEH, University of Oxford

Strohmeyer (2001) Collapse and Reconstruction of a Judicial System: The United Nations Missions in Kosovo and East Timor 95 AJIL 46

Studdard, K. (2004) "War Economies in a Regional Context – Overcoming the Challenges of Transformation" International Peace Academy, New York http://www.international-alert.org/women/publications/EWGEN.PDF

Subbarao, K. (2002) *Social Protection in Post-Conflict Countries: Africa Regional Perspective* http://info.worldbank.org/etools/docs/library/78112/1st percent20Workshop/Srmafrica/parisone/pdfpaper/conflicteng.pdf

Uvin, P. (2001) "The Influence of Aid in Situations of Violent Conflict: A Synthesis and a Commentary on the Lessons Learned from Case Studies on the Limits and Scope of the Use of Development Assistance Incentives and Disincentives for Influencing Conflict Situations" Conflict Prevention and Development Cooperation Papers. Paris: OECD, DAC-Informal Task Force on Conflict, Peace and Development Cooperation http://www.oecd.org/LongAbstract/0,2546,en_2649_33721_1919795_1_1_1_1,00.html

Varshney, A. (2002) *Ethnic Conflict and Civic Life: Hindus and Muslims in India* New Haven: Yale UP.

Vaux, T. and E. Visman (2005) *Service Delivery in Countries Emerging from Conflict* Bradford University, Report for Department for International Development, London
http://www.gsdrc.org/docs/open/SS15.pdf

Weinstein, E. and K. Tidball (2007) "Environment-shaping: An Alternative Approach to Applying Foreign Development Assistance" *Journal of Intervention and Statebuilding* V.1 N.1 (March)

Woodward, S. (2002) *Economic Priorities for Peace Implementation* IPA Policy Series on Peace Implementation
http://www.ipacademy.org/pdfs/ECONOMIC_PRIORITIES.pdf

World Bank (2003) *Building Capacity in Post-Conflict Countries* World Bank Conflict Prevention and Reconstruction Unit, Social Development Notes no. 14
http://www.postconflict.info/info/capacity/WB percent20Capacity percent20buidling percent20in percent20postconflict.pdf

Zuckerman, E. and M.E. Greenberg (2006) *The Gender Dimensions of Post-Conflict Reconstruction: The Challenges in Development Aid* UNU-WIDER Research Paper No. 2006/62
http://www.wider.unu.edu/publications/rps/rps2006/rp2006-62.pdf

B. ROLE OF THE PRIVATE SECTOR IN POST-CONFLICT DEVELOPMENT

Addison, T. (2001) *Reconstruction from War in Africa: Communities, Entrepreneurs, and States* WIDER Discussion Paper 2001/48
http://www.csae.ox.ac.uk/conferences/2001-DPiA/pdfs/Addison.pdf

Addison, T. (2003) *From Conflict to Recovery in Africa* Oxford: Oxford UP Press for UNU-WIDER

Anand, P.B. (2004) *Getting Infrastructure Priorities Right in Post-Conflict Reconstruction* UNU/WIDER Conference on Making Peace Work
http://www.wider.unu.edu/conference/conference-2004-1/conference percent202004-1-papers/Anand-1905.pdf

Ballentine, K. and V. Haufler (2005) *Enabling Economies of Peace: Public Policy for Conflict-Sensitive Business* New York: United Nations Global Compact.
http://rru.worldbank.org/PapersLinks/Open.aspx?id=6390

Ballengine, K. and Nitzschke, H. (2005) *Profiting from Peace: Managing the Resource Dimensions of Civil War*. IPA and Lynne Riener

Banfield, J. et al (2003) "Transnational Corporations in Conflict-Prone Zones: Public Policy Responses and a Framework for Action." International Alert
http://www.international-alert.org/pdfs/TNCs_in_conflict_prone_zones.pdf

Binder, A. and J.M. Witte (2007) "Business Engagement in Humanitarian Relief: Key Trends and Policy Implications": *ODI: HPG Background Paper*. June 2007.
http://www.odi.org.uk/hpg/papers/hpgbgpaper_monitoringtrends1.pdf

Bray, J. (2005) *International Companies and Post-Conflict Reconstruction – Cross-Sectoral Comparisons*. Working Paper 22, Conflict Prevention and Reconstruction Unit, World Bank.
http://lnweb18.worldbank.org/ESSD/sdvext.nsf/67ByDocName/InternationalCompaniesandPost-ConflictReconstructionCross-SectoralComparissons/$FILE/WP22_RevisedWeb.pdf

Bruck, T., E.V.K. Fitzgerald and A. Grigsby (2000) 'Enhancing the Private Sector Contribution to Post-War Recovery in Poor Countries'. QEH Working Paper 45 (1) Oxford: Queen Elizabeth

DFID, GTZ, International Alert (2006) *Private Sector Development and Peacebuilding – Exploring Local and International* Perspectives. September 14-15, Berlin, Germany. Conference Report
http://www.international-alert.org/pdfs/Press percent20Releases/Lblp_ConferenceReport.pdf

Gerson, A. (2001) "Peace-building: the Private Sector's Role" *The American Journal of International Law* v.95:102 pp. 102-119
http://www.asil.org/ajil/recon8.pdf

ILO (2005) HEI-ILO Research Programme on Strengthening Employment in Response to Crises Synthesis Report and Case Studies:
Volume 1: Supporting the Private Sector and Social Partners in Response to Conflicts and Natural Disasters *and*
Volume 2: Promoting Livelihood and Coping Strategies of Groups Affected by Conflicts and Natural Disasters

International Alert (2006) "Addressing the Economic Dimensions of Peacebuilding through Trade and Support to Private Enterprise"

Killick, N., et al (2005) "The Role of Local Business in Peacebuilding"

McLin, J. "The Private Sector and Social Partners in Crisis Response" in ILO (2005) HEI-ILO Research Programme on Strengthening Employment in Response to Crises Synthesis Report and Case Studies: Volume 1: Supporting the Private Sector and Social Partners in Response to Conflicts and Natural Disasters

Mills, R. and Q. Fan (2006) *The Investment Climate in Post-Conflict Situations.* World Bank Institute Investment Climate Capacity Enhancement Program

Nelson, J. (2000) *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution* International Alert Council on Economic Priorities

Sherman, J. (2001) *Private Sector Actors in Zones of Conflict: Research Challenges and Policy Responses.* IPA Workshop Report. New York: International Peace Academy
http://www.fafo.no/nsp/ipa-report.pdf

Sulzer, A. (2001) "The Business of Cooperation: Peace and Profit through Joint Ventures," *Harvard International Review* 23 (2)

Switzer, J. and H. Ward (2004) *Enabling Corporate Investment in Peace: An Assessment of Voluntary Initiatives Addressing Business and Violent Conflict and a Framework for Policy Decision-Making.* DFAIT Discussion Paper. International Institute for Sustainable Development and International Institute for Environment and Development.
http://www.iisd.org/pdf/2004/envsec_corp_investment.pdf

Zandvliet, L. (2005) "Opportunities for Synergy: Conflict Transformation and the Corporate Agenda" " in Fischer, M. and B. Schmelzle (eds) "Transforming War Economies: Dilemmas and Challenges" Handbook Dialogue Series

C. POST-CONFLICT FINANCIAL SECTOR RECONSTRUCTION

Addison, T, A. Geda, P. Le Billon, S. Mansoob Murshed (2001) *Financial Reconstruction in Conflict and 'Post-Conflict' Economies* UNU/WIDER Discussion Paper no 2001/90 Helsinki UNU/WIDER http://www.wider.unu.edu/publications/dps/dp2001-90.pdf

Bruett, et al (2004) *Conflict and Post-Conflict Environments: Ten Short Lessons to Make Microfinance Work*. SEEP Network Progress Note No. 5 September 2004

Conroy, J. (2004) *Timor-Leste: Independent Review of the Credit Component of the Community Empowerment Project* World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper # 11

De Klerk, T. (2003) Financing *Income Generating Activities in the Wake of Conflict* Network Learning http://www.networklearning.org/download/income_generation.pdf

Doyle, K. (1998) *Microfinance in the Wake of Conflict: Challenges and Opportunities*. Washington DC: USAID (*summary in Livelihoods & Conflict bibliography) http://www.gdrc.org/icm/disasters/conflict.pdf

Milita, T. (2002) *Conflict and Financial Reconstruction* Finance and Development Briefing Papers, Finance Development Research Programme, DfID. http://www.devinit.org/findev/BriefNote.pdf

Nagarajan, G. and T. Wilson (1994) "End of Project Evaluation Report: Research on Post-Conflict Micro-Finance by Concern Worldwide 2001-2003" http://www.postconflictmicrofinance.org/Evaluation percent20of percent20PCMf percent20Reseach percent20Project.doc

Wilson, T. (2002) *Microfinance During and After Armed Conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda.* Durham, UK. Mountoy Research Centre, the Springfield Centre for Business Development and Concern Worldwide. httpp://www.postconflictmicrofinance.org/PCM percent20Synthesis percent20Report.pdf

D. DONOR POLICY ON THE "RELIEF-DEVELOPMENT CONTINUUM" DEBATE

Action Aid Alliance (2003) *Improving European Development Cooperation: The Link Between Relief, Rehabilitation and Development* http://60gp.ovh.net/~ngovoice/documents/ActionAid_PolicyPaperLRRD_Final.pdf

Brambilla, G., S. Solari, and O. Haldorsson (2001) *Linking Relief to Rehabilitation and Development: Ideas and Suggestions from European NGOs*. Rome: VOICE and CISP http://60gp.ovh.net/~ngovoice/documents/LINKING percent20_RELIEF_TO_REHABILITATION_AND_DEVELOPMENT_ideas.pdf

Brambilla, G., S. Solari, and O. Haldorsson (2002) "Aid Policy and Growth in Post-Conflict Societies" World Bank Policy Research Working Paper 2902 http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2002/11/01/000094946_02101904245026/Rendered/PDF/multi0page.pdf

de Armino (2002) *Linking Relief, Rehabilitation and Development in the Framework of a 'New Humanitarianism'* European Commission Report http://60gp.ovh.net/~ngovoice/documents/Karlos_Perez_de_Armino_SUMMARY.pdf

Harmer, A., ed. (2004) *Beyond the Continuum: the Changing Role of Aid Policy in Protracted Crises.* Humanitarian Policy Group Report No. 18, London: ODI http://www.odi.org.uk/hpg/papers/hpgreport18.pdf

Keen, D. and K. Wilson (1994) "Engaging with Violence: A Reassessment of Relief in Wartime"

Macrae, J., et al (2002) *Uncertain Power: The Changing Role of Official Donors in Humanitarian Action* ODI HPG Report 12

Marshall, K. (1997) *Emerging from Conflict: What Roles for International Development Finance Institutions?* Development Discussion Paper No 587. Boston MA Harvard Institute for International Development

Mowjee, T. (2004) *European Union Policy Approaches in Protracted Crises* HPG Background Paper, ODI http://www.odi.org.uk/HPG/papers/EU_background_paper.pdf

Norad (2004) *Peacebuilding – A Development Perspective* http://www.cmi.no/pdf/?file=/afghanistan/doc/UD-Peacebuilding-a-Development-Perspective.pdf

OECD (2001) *The Influence of Aid in Situations of Violent Conflict* OECD Conflict Prevention and Development Cooperation Papers, DAC Journal, V. 2 n.1 http://www.oecd.org/dataoecd/31/24/1843044.pdf

OECD (2001) *Linking Relief, Rehabilitation and Development: Communication from the Commission to the Council and the European Parliament* http://www.oecd.org/dataoecd/32/3/34224438.pdf

Orr, Robert C., (ed.) (2004) *Winning the Peace: An American Strategy for Post-Conflict Reconstruction*. Washington, D.C.: Center for Strategic and International Studies.

Schiavo-Campo, S (2003) *Financing Aid Management in Post-Conflict Situations,* CPR Working Paper No. 6, Social Development Department http://lnweb18.worldbank.org/ESSD/sdvext.nsf/67ByDocName/FinancingandAidManagementArrangementsinPost-ConflictSituations/$FILE/WP6June18.pdf

World Bank (2003) "Financing and Aid Arrangements in Post-Conflict Settings" World Bank Conflict Prevention and Reconstruction Unit, Social Development Notes no. 12 http://siteresources.worldbank.org/INTRANETSOCIALDEVELOPMENT/214578-1111661180807/20488039/SDN84CPR12.pdf

UNDP (2004) *Unleashing Entrepreneurship: Making Business Work for the Poor.* UNDP Commission on Private Sector and Development http://www.undp.org.sa/Reports/Unleashing percent20Entrepreneurship percent20- percent20making percent20business percent20work percent20for percent20the percent20poor.pdf

USAID (2005) *Fragile States Strategy* http://www.usaid.gov/policy/2005_fragile_states_strategy.pdf

VOICE (2001) *The Grey Zone OR The Missing Link Between Relief, Rehabilitation and Development* http://60gp.ovh.net/~ngovoice/documents/Grey_Zone_2001_english.pdf

5. COUNTRY STUDIES

AFGHANISTAN

Barakat, S. and G. Wardell (2001) "Capitalizing on Capacities of Afghan Women: Women's Role in Afghanistan's Reconstruction and Development" INFOCUS Programme on Crisis Response and Reconstruction Working Paper No. 4. ILO: Geneva

Bhatia, A. and J. Goodhand (2003) "Profits and Poverty: Aid, Livelihoods and Conflict in Afghanistan" in Collinson, S. (ed) *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action* (HPG Report 13) London: ODI

Cramer, C. and J. Goodhand (2002) "Try Again, Fail Again, Fail Better? War, the State, and the 'Post-Conflict' Challenge in Afghanistan" *Development and Change* 33(5):885-909

Giustozzi, A. (2005) "Afghanistan: Exploring the peace-building potential of the private sector" in International Alert (2005) "Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector" pp. 208 - 231

Goodhand, J. (1999) *From Holy War to Opium War? A Case Study of the Opium Economy in North Eastern Afghanistan.* Working Paper No 5, Peace Building and Complex Political Emergencies

Mckechnie, Alastair J. (2003) *Humanitarian Assistance, Reconstruction and Development in Afghanistan: A Practitioner's View.* Conflict Prevention and Reconstruction Unit Working Papers No. 3 Social Development Department. Washington DC: World Bank.

Ollapally, Deepa. (2003) "Unfinished Business in Afghanistan: Warlordism, Reconstruction, and Ethnic Harmony"
http://www.usip.org/pubs/specialreports/sr105.pdf

Pain, A. and J. Goodhand (2002) "Afghanistan: Current Employment and Socio-Economic Situation and Prospects." INFOCUS Programme on Crisis Response and Reconstruction Working Paper No. 8. ILO: Geneva

Pickup, F. (2003) "The Impact of 'Transition' and the Afghanistan Crisis on Employment and Decent Work Concerns in Kyrgyzstan, Tajikistan and Uzbekistan" INFOCUS Programme on Crisis Response and Reconstruction Working Paper No. 13, ILO: Geneva

Rubin, B. (2000) "The Political Economy of War and Peace in Afghanistan" *World Development* 28:10 pp.1789-1803. http://psclasses.ucdavis.edu/POL124/spr/PDF/Afghanistan.pdf

Rubin, B., A. Ghanii, et al "Afghanistan: Reconstruction in a Regional Framework" Bern: Centre for Peacebuilding, Swiss Peace Foundation

BOSNIA & HERZEGOVINA

Bray, J. (2005) "Bosnia: CHF's Municipal and Economic Development Initiative Project – a Case Study in Local and Regional Peacebuilding" in International Alert (2005b) "Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector" pp. 257-262

Bray (2004) *MIGA's Experience in Conflict-Affected Countries: the Case of Bosnia & Herzegovina* World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper # 13

Divjak, B. (2005) "Bosnia and Herzegovina: Doing Business to Cement Peace" in International Alert (2005b) "Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector" pp.234-257

Hertzberg, B. (2004) "Going the Last Mile: The Bulldozer Initiative in Bosnia and Herzegovina World Bank Policy Research Working Paper No. 3390. Available at SSRN: World Bank Policy Research Working Paper No. 3390

CAMBODIA

Colletta, N. and M. Cullen (2000) *Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala and Somalia*

CAUCASUS

Balayan, V. (2004) "The Role of International Organizations in the Development of Small Businesses and the Peaceful Settlement of the Nagorno-Karabakh Conflict" in International Alert (2004) *From War Economies to Peace Economies in the South Caucasus*

Gultekin, B. (2004) "Cross-border Cooperation between Turkey and South Caucasus: Prospects for sub-regional integration" in International Alert (2004) *From War Economies to Peace Economies in the South Caucasus*

International Alert (2004) *From War Economies to Peace Economies in the South Caucasus*. Economy and Conflict Research Group

Juvarly, T. and I. Shabanov (2004) "The Potential Impact of Sadakhly Market on the Settlement of the Armenian-Azerbaijani Conflict" and Dzhikaev, V. an A. Parastaev "Economy and Conflict in South Ossetia" in International Alert (2004) *From War Economies to Peace Economies*

Karakhanian A. and A. Mkrtchyan (2004) "The Role of Economic Cooperation in the Settlement of Conflicts in the South Caucasus" in *From War Economies to Peace Economies in the South Caucasus* p. 91

MacDonald, M.H. (2006) *Post Conflict Reconstruction and Private Sector Development: Case Study: GTZ Project for Food Security, Regional Cooperation, and Stability in the South Caucasus*. GTZ http://www2.gtz.de/dokumente/bib/06-0674.pdf

Mirimanova, N. (2005) "Between Pragmatism and Idealism: Business Coping with Conflict in the South Caucasus" in International Alert (2005b) *Local Business Local Peace: Case Study: South Caucasus.* http://www.international-alert.org/pdfs/lblp_South_Caucasus.pdf

CENTRAL AFRICA

Bakhache, E., et al (2007) "Assessing Competitiveness After Conflict: The Case of the Central African Republic" IMF Working Paper No. 06/303 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=958167

Pourtier, R. (2003) *Central Africa and the Cross-Border Regions: Reconstruction and Integration Prospects* INICA

Mwangi Kagwanja, P. and G. Ntegeye, "Regional Conflict Formations in the Great Lakes of Africa: Dynamics and Challenges for Policy" Summary Report of the Nairobi Conference, November 2001, Center on International Cooperation, www.nyu.edu/pages/cic/pdf/rcf_nairobi.pdf

COLOMBIA

Nelson, R. (2007) "Dangerous Friends" *Latin Trade* V.15 I.8

CROATIA

Singer, S. (2005) "Territorial Development, Vulnerability Reduction and Community Reconciliation: A Case Study of Local Economic Development (LED) Projects in Eastern Slavonia (Croatia)" ILO (2005) HEI-ILO Research Programme on Strengthening Employment in Response to Crises Synthesis Report and Case Studies – Volume 2: Promoting Livelihood and Coping Strategies of Groups Affected by Conflicts and Natural Disasters pp. 215-266

DRC

Castillo (2003) *Economic Reconstruction in Post-Conflict Transitions: Lessons for the Democratic Republic of Congo (DRC)* OECD Working Paper # 228.

Braud, P-A (2005) "Bringing Entrepreneurs into the Peace Process in the Democratic Republic of Congo" in International Alert (2005b) "Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector" Case Study: Democratic Republic of Congo. http://www.international-alert.org/pdfs/lblp_DRC.pdf

Jackson, S. (2003) "Fortunes of War: the Coltan Trade in the Kivus" in Collinson, S. (ed) *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action* (HPG Report 13) London: ODI http://www.odi.org.uk/hpg/papers/hpgreport13.pdf

EAST TIMOR

Rohland, K. and S. Cliffe (2002) "The East Timor Reconstruction Program: Successes, Problems and Tradeoffs" Conflict and Reconstruction Unit Working Paper, the World Bank, Washington, D.C. http://pascal.iseg.utl.pt/ percent7Ecesa/WP2EastTimor.pdf

EL SALVADOR

Rettberg, A. (2005) "El Salvador: a Firm Grip on the Peace Process" in International Alert (2005) *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*. http://www.international-alert.org/pdfs/lblp_El_Sal.pdf

ERITREA

Cotton, L. et al (2002) *Pilot Investment Climate Assessment: Obstacles to the Expansion of Eritrea's Manufacturing Sector* World Bank/IFC Regional Program on Enterprise Development Africa Private Sector Group

GUATEMALA

Colletta, N. and M. Cullen (2000) *Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala and Somalia*

Fernando Valdez, J., I. Monzon and W. Godnick (2005) "War and Peace: the Ongoing Business Revolution in Guatemala" in International Alert(2005b) "Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector" Case Study: Guatemala. http://www.international-alert.org/pdfs/lblp_Guatemala.pdf

GUINEA-BUISSAU

Boubacar-Sid, B. (2007) *Conflict, Livelihoods and Poverty in Guinea-Bissau.* Washington DC: World Bank.

Laurenco-Lindell (2002) *Walking the Tight Rope: Informal Livelihoods and Social Networks in a West African City.* Stockholm: Stockholm University

IRAQ

Looney, R. (2006) "Economic Consequences of Conflict: The Rise of Iraq's Informal Economy" *Journal of Economic Issues* Vol.XL No. 4 December 2006

Nelson, J. and J. Moberg (2003) "Rebuilding Bridges: Opportunities and Challenges for Responsible Private Sector Engagement in Iraq's Reconstruction" IBLF Policy Paper No. 3 http://www.winwinpartner.com/_downloads/080603IBLFIraq.pdf

Open Society Institute and the U.N. Foundation (2003) "Reconstructing Iraq: A Guide to the Issues" http://www.soros.org/initiatives/washington/articles_publications/publications/reconstructingiraq_20030530/reconstructing_iraq.pdf

Umari, S. and A. Abu Alitmen (2005) "The SME Sector in Iraq: A Key Resource to Short-term Income Generation and Longer-term Development" in ILO (2005) HEI-ILO Research Programme on Strengthening Employment in Response to Crises Synthesis Report and Case Studies – Volume 1: Supporting the Private Sector and Social Partners in Response to Conflicts and Natural Disasters pp. 38-97

ISRAEL/PALESTINE

Dajani, A., Y. Dayan and C. Touboul (2005) "Israel and Palestine: Doing Business Across the Conflict Divide" in International Alert (2005b) *Local Business, Local Peace.* http://www.international-alert.org/pdfs/lblp_Israel_Palestine.pdf

Fielding, D. (2004) *How Does Violent Conflict Affect Investment Location Decisions? Evidence from Israel during the* Intifada. WIDER www.wider.unu.edu/conference/conference-2004-1/conference%202004-1-papers/Fielding-1103.pdf

World Bank (2007) *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector*. World Bank Finance and Private Sector Development Group, Social and Economic Development Department, Middle East and North Africa Region. http://www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/294264-1166008938288/ICA2007.pdf

LEBANON

Picard, E. (2005) "Trafficking, Rents, and Diaspora in the Lebanese War" in Arnson, C. and Zartman, W. (2005) *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed"* Woodrow Wilson International Center for Scholars

UN-UNSCWA (2006) *Lebanon's Rebuilding and Revival: A Policy Paper with Initiatives* www.escwa.org.lb/divisions/ecri_editor/Download.asp?table_name=documents&field_name=id&FileID=49

NIGERIA

Lyon, F. et al (2005) "The Nigerian Market: Fuelling Conflict, or Contributing to Peace" in International Alert (2005b) *Local Business, Local Peace.* http://www.international-alert.org/pdfs/lblp_nigeria.pdf

(NORTHERN) IRELAND

International Alert (2005b) "The Confederation of British Industry and the Group of Seven: a Marathon Walk to Peace in Northern Ireland. In International Alert (2005) *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*. http://www.international-alert.org/pdfs/lblp_northern_ireland.pdf

MACEDONIA

Srzic, L. (2005) "Promoting multi-ethnic Stakeholder Small-to-medium enterprise in the Republic of Macedonia" in ILO (2005) HEI-ILO Research Programme on Strengthening Employment in Response to Crises Synthesis Report and Case Studies – Volume 1: Supporting the Private Sector and Social Partners in Response to Conflicts and Natural pp. 98-137

MOZAMBIQUE

De Sousa, C. (2000) "Rebuilding Rural Livelihoods and Social Capital in Mozambique" in T. Addison (ed) *From Conflict to Reconstruction in Africa,* Helsinki: UNU/WIDER

Wuyts, M. (2000) "The Agrarian Question in Mozambique's Transition and Reconstruction" in T. Addision (ed) *From Conflict to Reconstruction in Africa,* Helsinki: UNU/WIDER

MOZAMBIQUE & RWANDA

Dunne, P. and G. Mhone (2003) "Africa's Crises: Recent Analysis of Armed Conflicts and Natural Disasters in Africa" INFOCUS Programme on Crisis Response and Reconstruction Working Paper No. 5. ILO: Geneva

RWANDA

Ansoms, A. (2005) "Resurrection after Civil War and Genocide: Growth, Poverty and Inequality in Post-Conflict Rwanda" *The European Journal of Development Research* v.17n.3 September

Colletta, N. and M. Cullen (2000) Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala and Somalia. International Bank for Reconstruction and Development/World Bank.

Fraser, L. (2006) "Coffee, and Hope, Grow in Rwanda" *The New York Times* August 6, 2006. http://www.nytimes.com/2006/08/06/business/yourmoney/06coffee.html?ex=1312516800&en=11284e65803b86a6&ei=5088&partner=rssnyt&emc=

McLaughlin, A. (2006) "Why Jeanette Employs her Family's Killers" *Christian Science Monitor* October 24 2006. http://www.csmonitor.com/2006/1024/p01s03-woaf.html;

SENEGAL

Evans, M. (2003) "Ni paix ni guerre: the political economy of low-level conflict in Casamance" in Collinson, S. (ed) *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action* (HPG Report 13) London: ODI

SIERRA LEONE

ACDI/VOCA (2007) *World Bank Rural and Private Sector Development Project: Agricultural Value Chain Analysis: Sierra Leone.* Draft Prepared by ACDI/VOCA for the World Bank.

Bellows, J. and E. Miguel (2006) War and Institutions: New Evidence from Sierra Leone *American Economic Review* v.19 n.2 *

Fanthorpe, R. (2003) “Humanitarian Aid in Post-War Sierra Leone: the Politics of Moral Economy” in Collinson, S. (ed) *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action* (HPG Report 13) London: ODI

Besant, R. (2005) “Telecoms and Peacebuilding: the Search for Shared Communication” in International Alert (2005b) *Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector* Case Study: Sierra Leone. http://www.international-alert.org/pdfs/lblp_Sierra_Leone.pdf

Richards, P. et al (2004) *Social Capital and Survival: Prospects for Community-Driven Development in Post-Conflict Sierra Leone.* World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper # 12

SOMALIA

Colletta, N. and M. Cullen (2000) Violent Conflict and the Transformation of Social Capital: Lessons from Cambodia, Rwanda, Guatemala and Somalia. International Bank for Reconstruction and Development/World Bank.

Maimbo, S. (2006) *Remittances and Economic Development in Somalia: an Overview.* World Bank Conflict Prevention and Reconstruction (CPR) Unit Working Paper #38 http://siteresources.worldbank.org/EXTCPR/Resources/WP38_web.pdf?resourceurlname=WP38_web.pdf

Warsame Yusuf, A. (2005) “Somali Enterprises: Making Peace Their Business” in International Alert (2005b) *Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector.* http://www.international-alert.org/pdfs/lblp_Somalia.pdf

SRI LANKA

Frazier, M. (?) *Paths Towards Peace: A Sri Lankan Example for Post-Conflict Societies* http://www.peacethroughcommerce.com/Downloads/Paths_Toward_Peace-Sri_Lanka.pdf

Goodhand, J. (2001b) “Conflict Assessments: Aid, Conflict and Peace Building in Sri Lanka” Conflict, Security and Development Group, University of London http://www.dfid.gov.uk/pubs/files/conflictassessmentsrilanka.pdf

Goodhand, J., D. Hulme and N. Lewer (2000) “Social Capital and the Political Economy of Violence: A Case Study of Sri Lanka” *Disasters* 24:4 pp.390-406

International Alert (2002) “The Private Sector as an Agent of Peace in Sri Lanka: Background Paper”

Palmer, N. (2005) “Defining a Different War Economy: The Case of Sri Lanka” in Fischer, M. and B. Schmelzle (eds) “Transforming War Economies: Dilemmas and Challenges” Berghof Handbook Dialogue Series

Sarvananthan, M. (2003) “What Impede Economic Revival in the N&E Province of Sri Lanka?” Point Pedro Institute of Development Working Paper #2 http://pointpedro.org/wp-content/File/PPID percent20Working percent20Paper percent202.pdf

SUDAN

Abdel Gadir Ali, A. (??) *On Human Capital in Post-Conflict Sudan: Some Exploratory Results.* http://www.arab-api.org/jodep/products/delivery/wps0602.pdf

Keen, D. (1994) "The Functions of Famine in Southwestern Sudan: Implications for Relief" in Macrai, J. and A. Zwi (eds) *War and Hunger: Rethinking International Responses to Complex Emergencies*

Lewis, S. (2004) *Rejuvenating or Restraining Civil War: The Role of External Actors in the War Economies of Sudan* BICC Paper 37. Bonn International Center for Conversion http://www.bicc.de/publications/papers/paper37/paper37.pdf

UGANDA

International Alert (2006) "Addressing the Economic Dimensions of Peacebuilding through Trade and Support to Private Enterprise"

6. VALUE CHAIN APPROACH

Derks, E., Barber, Ted, Kula, Olaf and Dalziel, Elizabeth. *Haitian Handicraft Value Chain Analysis,* USAID's microREPORT #68, for Academy for Educational Development's "Going to SCALE" 2004

Dunn, E., J. Sebstad, L. Batzdorff and H. Parsons (2006), *Lessons Learned on MSE Upgrading in Value Chains: A Synthesis Paper*. USAID *LINK*

Humphrey, Schmitz, and Navas-Aleman (forethcoming) *Small and Medium Enterprises, Multinational Value Chains and 'Pro-poor' Policies Review* IDS/Ford Foundation.

Kula, O., J. Downing and M. Field (2006), *Globalization and the Small Firm: A Value Chain Approach to Economic Growth and Poverty Reduction*, USAID. http://www.microlinks.org/ev_en.php?ID=10143_201&ID2=DO_TOPIC

Roduner, D. (2007) *Donor Interventions in Value Chain Development*. SDC-Community of Practice on Value Chains in Rural Development. www.sdc-valuechains.ch/resources/resource_en_131.pdf

Schmitz, H./ILO (2005) *Value Chain Analysis for Policy Makers and Practitioners*. IDS http://www.ilo.org/dyn/empent/docs/F204969253/VCA_book_final.pdf

Tsai, W. and S. Ghoshal (1998) "Social Capital and Value Creation: The Role of Intrafirm Networks." *The Academy of Management Journal* V41:N4 August 1998.

USAID (2005) *Integrating Micro- and Small-scale Enterprises into Productive Markets*. microREPORT #29 p.9-10

USAID (2007) *Value Chain Development for Conflict-Affected Environments: Guidance for Case Studies*

7. ADDITIONAL INFORMATION RESOURCES

ACCORD

Accord provides an international review of peace initiatives' provides detailed narrative and rigorous analysis on specific peace processes. It is the acclaimed publication of the Accord Programme from Conciliation Resources.

BEYONDINTRACTABILITY.ORG

"A free knowledge base on more constructive approaches to destructive conflict."

BUSINESS HUMANITARIAN FORUM

The Business-Humanitarian Forum works to bridge the gap of understanding and promote cooperation between humanitarian organizations and private business, encouraging both sides to work together to solve complex development problems.

CENTRE FOR RESEARCH ON INEQUALITY, HUMAN SECURITY AND ETHNICITY (CRISE)

CRISE is a DFID-funded Development Research Centre based at Oxford University. Its research covers horizontal inequalities, ethnic identities, and policy levers for addressing the causes of conflict.

CONFLICT-SENSITIVE APPROACHES - FEWER/INTERNATIONAL ALERT/SAFERWORLD

This is a key resource pack on conflict sensitive approaches, developed through collaboration between the NGOs International Alert and Saferworld, and the FEWER network.

CONFLICT PREVENTION WEB

This is a USAID funded project for the Greater Horn of Africa Initiative. The website provides tools and strategies on conflict prevention for practitioners.

CRISIS STATES PROGRAMME

The Crisis States Programme at London School of Economics is a DFID funded Development Research Centre investigating the causes of crisis, breakdown and conflict in the developing world and the processes of avoiding or overcoming them.

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

DFID has a number of useful sites: Business Partnership Unit, Resource Center for the Social Dimensions of Business Practice, Ethical Trading Initiative, Global Citizen Unit, and the Conflict and Humanitarian Affairs Department.

DO NO HARM PROJECT, COLLABORATIVE DEVELOPMENT ACTION (CDA)

CDA is a US development consultancy firm, with an online web resource on the 'Do No Harm' agenda originally proposed by Mary Anderson in a seminal 1996 book. It is concerned with limiting the negative impacts of development and humanitarian interventions in conflict situations.

ELDIS

“The gateway to development information” has created a resource guide on education and emergencies.

THE EUROPEAN UNION'S CONFLICT PREVENTION AND CIVILIAN CRISIS MANAGEMENT PAGE

This page provides an introduction and documents on the EU's policies in this area.

GLOBAL PARTNERSHIP FOR THE PREVENTION OF ARMED CONFLICT

The Global Partnership for the Prevention of Armed Conflict is an international network of organizations working in conflict prevention and peace-building worldwide. One of its research programs examines relationships between civil society, governments and the UN.

GOVERNANCE AND SOCIAL DEVELOPMENT RESEARCH CENTER

The GSDRC aims to help reduce poverty by informing policymaking and enhancing professional knowledge and competencies in relation to governance, conflict and social development.

THE INSTITUTE FOR SECURITY STUDIES

The ISS aims to enhance human security in Africa and has many publications relating to conflicts in the region.

INTERNATIONAL ALERT

International Alert is an NGO working to build lasting peace through capacity building, mediation and dialogue. It carries out advocacy and produces policy analysis, available on the website, covering the conflict aspects of themes such as business, gender, religious, and small arms and light weapons.

INTERNATIONAL CRISIS GROUP

ICG is a multinational organization working to prevent and resolve conflict through field-based analysis and high-level advocacy. Its website hosts a number of databases and publications of interest, including the 'conflict histories database' which includes brief detailed histories of conflicts over five continents.

THE INTERNATIONAL PEACE ACADEMY (IPA)

IPA is an independent, international institution aiming to promote the prevention and settlement of armed conflicts through policy research and development. IPA's Conflict Prevention webpage contains many online publications and workshop reports on donor approaches in this area.

THE OECD DAC NETWORK ON CONFLICT, PEACE AND DEVELOPMENT CO-OPERATION

The OECD DAC's CPDC, is an international forum working on conflict prevention and peacebuilding, involving experts from bilateral and multilateral development agencies, including from the UN system, EC, IMF and World Bank.

PRIO - THE INTERNATIONAL PEACE RESEARCH INSTITUTE, OSLO

PRIO is an independent research institute, which has produced research on themes including identities and conflict, and natural resources.

UK GOVERNMENT POST-CONFLICT RECONSTRUCTION UNIT

This interdepartmental unit was created to build the UK Government's capacity to deal with post-conflict stabilization.

UNDP BUREAU FOR CRISIS PREVENTION AND RECOVERY

The UNDP's Bureau for Crisis Prevention and Recovery has a webpage on Conflict Prevention and Peacebuilding, which outlines its conflict-sensitive approach and includes a short document on conflict analysis.

USAID OFFICE OF CONFLICT MANAGEMENT AND MITIGATION

The USAID's internal Office of Conflict Management and Mitigation has a website housing conflict assessments, an 'essential reading' list, and forthcoming toolkits and resources on conflict warning and analysis.

UNITED STATES INSTITUTE OF PEACE (USIP)

USIP is an independent US federal institution created to support the development, transmission, and use of knowledge to promote peace and curb violent international conflict. The USIP includes a 'focus on Iraq' page.

WIDER CONFERENCE ON MAKING PEACE WORK

The United Nations University held a conference addressing sustainable reconstruction in Helsinki during June 2004.

WORLD BANK CPRU

The website of the World Bank Conflict Prevention and Reconstruction Unit includes online topic guides, documents and information on World Bank activities. The World Bank site also has a portal to information on poverty reduction in post-conflict contexts and a research program on the 'Economics of civil war, crime and violence', featuring working papers, online theme pages and datasets.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: (202) 712-0000
Fax: (202) 216-3524
www.usaid.gov