Economic Development in conflict-affected countries

Practitioners' Note

gtz

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FOREWORD

Development interventions can help to prevent, transform or overcome conflicts, yet at the same time they can also cause, trigger or aggravate them. Since interventions always have an impact on conflict - either positive or negative - private sector development (PSD) in conflict or post-conflict situations cannot be planned and implemented in the same manner as in peaceful countries.

For several years, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH and the Foreign Investment Advisory Service (FIAS) have explored the links between conflict, peace and economic development, both conceptually, and through conflict-sensitive PSD interventions in the countries in which they work. Reaching out to a broader community, the German Federal Ministry for Economic Cooperation and Development (BMZ), GTZ, the UK Department for International Development (DFID), and International Alert organised the international conference on Private Sector Development and Peace Building in Berlin in September 2006. Some 140 experts discussed how to design PSD Programmes in (post-) conflict situations and explored ways to integrate the two perspectives of economic promotion on the one hand and peace building on the other hand into a coherent and comprehensive approach to conflict-sensitive PSD interventions.

BMZ/GTZ and FIAS decided to continue the dialogue initiated at the conference and to integrate their practical experiences in this Practitioners' Note on “Economic Development in Conflict-Affected Countries”. The Practitioners' Note takes stock of lessons learned and offers recommendations for conflict-sensitive PSD interventions. This Note is a complement to a handbook on investment climate reform in conflict-affected countries (FIAS) and a Guidebook on PSD in (Post-) Conflict Situations (GTZ).

In 2008, these two organisations and the Donor Committee on Enterprise Development (DCED) will continue the discussion of PSD in fragile and conflict-affected countries. The differences in the current approaches of the donor community need to be addressed to facilitate further effective coordination.

We hope that you find this publication useful for your work and that you will share your own experiences with us in order to make good practices even better.

KEY MESSAGES

How economic structures can be developed and the private sector re-established are vital questions for a post-conflict situation. The approach taken can promote peace (for instance, when it can address pressing needs and grievances, or when it reduces tensions and the causes of conflict), but it can also (re)ignite violence (for example, by primarily supporting the 'winners' of the conflict and leaving out the 'losers').

This Practitioners' Note focuses on the linkage between conflict and private sector development (PSD), acknowledging the need for conflict-sensitive planning and implementation of economic interventions. While much can be said about the different phases of conflict, this note focuses on the phases during and after conflict, drawing lessons from IFC/FIAS' and BMZ/GTZ's experiences from a range of countries.

KEY MESSAGES

- The influences of economic development (including private sector development - PSD)[1] and violent conflict are closely interconnected: whereas a conflict environment hinders sound economic growth, economic activity and actors can play a role either negatively in hindering stability or positively in peace building.
- In many conflict-affected countries, issues of socioeconomic development and political power are interlinked. The root causes of conflicts are often related to the distribution of a country's resources, while resource access is by definition affected by economic development programmes. Development interventions with the objective of promoting economic growth need a profound assessment of both the conflict and peace dynamics, as well as the political economy of the respective country. PSD interventions should respond to peace building needs.
- In post-conflict situations, there is a particular need to combine sound economic growth principles with a socially inclusive development approach, which must be explicitly and transparently included in economic models and policies. While economic and investment opportunities should in principle be accessible for all segments of society, especially marginalised groups, a post-conflict context makes this particularly important. Only if all the former conflicting parties have a chance to participate can economic development make a significant contribution to preventing further violent conflict and to the consolidation of the society's ability to manage tensions in a peaceful manner. If the losers are excluded, they are likely to sabotage any progress.
- The systematic integration of PSD measures as first generation reforms in the immediate post-conflict reconstruction agenda is an essential foundation for sustainable economic development, making use of a 'window of opportunity' for systematic change, addressing short-term economic needs and supporting peace building processes wherever feasible.
- Economic recovery is only one type of post-conflict reconstruction initiative. As such, it must be context-specific and it must also be integrated into, and coordinated with efforts undertaken in other fields (i.e. governance, infrastructure, emergency aid).

  Capacity development at all levels and the gradual rebuilding of social capital within the economy are critical for the sustainable growth of the private sector and for lasting economic change and stability.

1 The terms 'private sector development' and 'economic development' are used interchangeably in this practitioners' note. While private sector development could be viewed as a sub-sector of broader economic development, both terms are used in this manner to capture what both GTZ and FIAS mean by their interventions. Generally, FIAS works on the macro level, and GTZ, on behalf of BMZ, works on multiple levels.

1 INTRODUCTION

Donor interventions for economic development face particular challenges in conflict or post-conflict environments. Common features of economies recovering from war include:

- instability or lack of security that scares away investors
- a mostly low-skilled labour supply and consumers who are unsettled and focused on survival
- limited movement of people and goods in fragmented or failed markets
- damaged roads, ports, power and communication infrastructure
- high levels of untaxed informal economic activity that represent a misallocation of resources
- illegal economic activity that may be a cause of conflict
- difficulties or high expense in obtaining insurance and credit
- a lack of incentives and weak political or administrative will for action on governmental reform
- low trust in government administration
- weak fiscal stability, too many subsidies, and large initial capital investments that deter most except large or 'cowboy' investors
- high levels of corruption that result in low investments, low productivity, and very high prices for consumers
- tensions between local leaders and returnees
- target groups not interested in long-term development

In the short term, unlike 'normal', stable countries, conflict-affected countries often have an openness to reform that can be seized. Economic development interventions have a critical role to play, such as contributing to reforms to a country's economy, promoting more equal access to economic resources or stimulating employment and income opportunities for those most affected by, or prone to conflict. In the long term, if they are well placed in a wider socioeconomic approach, such interventions and programmes can also bring together those previously separated by war and conflict, such as neighbouring communities, internally displaced persons (IDPs) or refugees, and ex-combatants. Economic programmes, especially when conflict-sensitive, can minimise the detrimental effects of conflicts while maximising the potential benefits to specific target groups.

1.1. ....The Impact of Conflict on the Economy

Violent conflict disrupts and distorts the functioning of an economy, to the detriment of the private sector and economic development. A cross-sectional study estimating the effects of conflict on economic growth has found that per capita GDP declines at an annual rate of 2.2 percent during civil wars, compared to times of peace. This means that by the end of a typical civil war (lasting on average seven years) incomes are around 15 percent lower than they would otherwise have been, implying that about 30 percent more people are living in absolute poverty (Collier 1999).

The relationship between income levels and conflict is self-reinforcing, as the risk of civil war in low-income countries is typically around 15 times higher than in OECD societies. A vicious circle of conflict and poverty, termed the 'conflict trap' (Collier 2003), emerges: poverty fuels conflict and, in turn, conflict sustains and aggravates poverty.

Depending on the duration and intensity of a conflict, its adverse effects on the economy can have different forms and levels of severity (see Figure 1). While even low-intensity conflicts markedly impede economic growth, severe civil or interstate war is likely to lead to a complete breakdown of economic activity.

Competitiveness of an Economy	
Meta	- development orientation - social capital, values
Macro	- degree of economic stability - quality of regulatory environment - legal framework and enforcement - dialogue with PS and civil society
Meso	- quality of infrasturcture - availability of financial and nonfinancial services - existence and quality of private sector organisations
Micro	- level of entrepreneurial tradition - productivity - availability of qualified labour

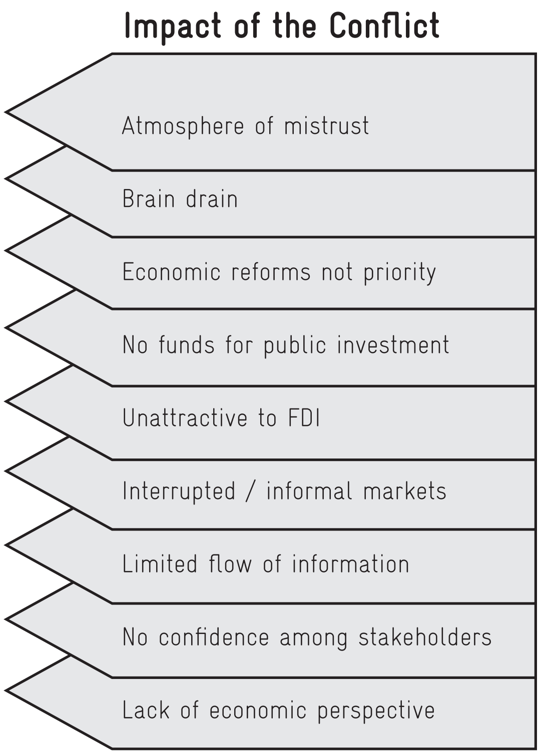


Figure 1: Negative Impact of Conflict on Economic Competitiveness

During conflict, economic actors face higher direct costs as they are forced to increase their spending on security, forced "contributions", transport and health; they are also confronted with the loss of assets and human resources. At the same time, indirect costs occur, such as the loss of business opportunities, increased country credit risk, and macroeconomic instability reflected in a devalued currency and inflation. Moreover, with the increased risk and uncertainty in conflict and post-conflict countries compared to pre-war levels, the expected returns on investment are lower, thus severely discouraging private sector investment. As economic activity becomes more costly, less efficient and insecure, investment drops. This leads in turn to low or negative growth rates and eventually to a breakdown of business cycles. As the private sector diminishes, so do the number of jobs, levels of income, and the quality of livelihoods (Mills and Fan 2006).

Smaller domestic enterprises are particularly affected by increasing transaction costs as social capital decreases in times of conflict. To reduce the excessive transaction costs, the informal and subsistence sectors grow, with businesses of reduced complexity and interaction, and value chains of minimal length.

1.2. ....The Impact of Economic Factors on Conflict

Conversely, economic factors have an impact on conflict. Firstly, the root causes and escalating factors of conflicts often have an economic dimension. For instance, horizontal inequalities (differences in access to resources, wealth and livelihoods between regional, social, or ethnic groups) have been shown to make a country more vulnerable to conflict (Stewart 2001). Likewise, competition over economic resources or insufficient satisfaction of basic human needs can trigger violence.

Secondly, economic resources play an important role in the duration and intensity of a conflict as they determine the financial opportunities for economic actors and their incentives to end or prolong a conflict. Studies have shown that the occurrence of 'lootable' natural resources (e.g. timber, alluvial diamonds or 'coltan'), which can be used as a source of financing, correlates to the prolongation of conflicts, and that a large diaspora, also serving as a source of finance, statistically increases the risk of conflict renewal (Collier and Hoeffler 2001).

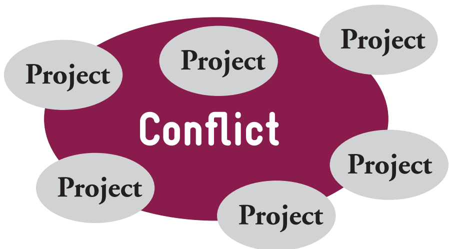
On the other hand, economic growth and diversification can markedly reduce the risk of conflict (Collier 2007) and stabilise a post-conflict situation. The private sector in particular is a necessary source of long-term employment, with infrastructure construction or the restoration of social services helping to rebuild social capital (Mills and Fan 2006).

For development cooperation this means that the promotion of economic and private sector development can trigger or exacerbate conflict, if the causes and dynamics of the conflict are not taken into account. On the other hand, conflict-sensitive economic development can deescalate tensions and make an active contribution to peace building.

KEY CONCEPT OF CONFLICT-SENSITIVITY IN ECONOMIC DEVELOPMENT 2

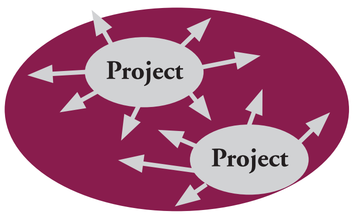
Working around a conflict, by ignoring the fact that there is or has been a conflict in a given country or region when planning and implementing interventions, is no longer acceptable for economic development programmes.

Implementing PSD in conflict settings: Working in and on conflict



Working in Conflict (conflict-sensitive)

The possible mutual impacts of development cooperation and conflicts are recognised. Strategies minimise negative impacts of PSD interventions and apply Do-No-Harm (DNH) as minimum standard.



Working on Conflict (conflict-relevant)

The conscious attempt to design programmes in a way that they make a direct contribution to peace building. Crisis prevention and conflict transformation are specific priority areas.

Figure 2: Conflict Sensitivity and Conflict Relevance in Economic Development Source: GTZ (2008a). Guidebook - Private Sector Development in (Post-) Conflict Situations.

To make a significant and relevant contribution to sustainable economic recovery, and to minimise the risks for (development) investments, donors and implementers must acknowledge that working in a conflict-prone country means working in conflict (see Figure 2 above). Working in conflict means taking into account the possible mutual impacts of economic development and conflict in a specific country and applying 'Do-No-Harm' principles (see Figure 3 below) during the implementation as a minimum standard. With this approach, the negative impacts of PSD activities on the conflict dynamics can be minimised. It should be noted that conflict transformation is not meant to be the main objective of PSD reforms or of economic development programmes; however, the causes and realities of conflict cannot be ignored, and applying a purely technical approach to economic development and PSD brings with it the risk of failure.

Doing no harm and avoiding or minimising unintended negative impacts depends first and foremost on a thorough situation analysis. Ideally, this will lead to a better understanding of connectors, dividers and the role of the private sector. DNH postulates that all societies are characterised by elements, people and organisations that divide people into subgroups (“dividers”); likewise there are elements, people and organisations that can connect people across subgroups (“connectors”). When dividers are fuelled or connectors undermined, the social fabric can deteriorate to the point of violence and warfare. When, on the other hand, connectors are reinforced and dividers are overcome, people find ways to live side-by-side and work together to address common problems.

Analyze the Conflict

The first step to understand the conflict by identifying:

1. ‘Dividers’ and ‘Spoilers’: Issues and actors that divide society
2. ‘Connectors’ and ‘Drivers of Change’: Issues and actors that connect societies across (former) conflict divides

Understand & Monitor Impact

Every intervention has an impact on the conflict context (e.g. through transfer of ressources). Identify if the intervention

• strengthens (+) or weakens (-) ‘connectors’
• fosters (-) or weakens (+) ‘dividers’

(Re-) Program

Programming options need to be developed or adjusted to

• minimise (unintended) negative impact
• strengthen positive impact

Figure 3: Do-No-Harm – Making Economic Development Conflict-Sensitive

However, economic development programmes can focus clearly and intentionally on conflict issues. With their content (‘What’) and their implementation methods (‘How’), programmes can create a ‘peace-added-value’. Working on conflict can involve a conscious attempt to design, implement and, later, to monitor and evaluate programmes in such a way that they contribute directly to peace building. Crisis prevention and conflict transformation are specific priority areas which go hand-in-hand with the objectives of economic development and PSD. These interventions can address different aspects of a conflict, such as its economic causes, or the factors that increase the risk or duration of violent conflict; they can also tackle the negative impact of a conflict on the economy at large, or on certain target groups and regions; and they can support the reconstruction or rehabilitation of economic infrastructure and systems, and enhance factors which contribute to conflict prevention, peace building and reconciliation. Approaches to working in and working on conflict are relevant in the planning and implementation of economic development programmes during all conflict phases (before, during and after conflict).

3 KEY ISSUES TO CONSIDER WHEN GETTING INVOLVED

Analysing the Challenge ....3.1.

Not all conflicts are the same. Each conflict situation is characterised by numerous criteria, such as the root causes, the intensity of the violence of the conflict, the extent to which a 'war economy' exists, and the political and institutional arrangements established both during and after the conflict. Moreover, conflict is inherently political - that is, it is about power. What is usually at stake is the power to control and benefit from resources which are economically valuable, one way or another. Political and economic dimensions and the root causes of a conflict are often strongly interlinked in various ways.

A comprehensive conflict analysis is the essential first step in understanding the challenges to economic development support in a post-conflict situation. A professional conflict analysis is holistic and looks at all relevant possible causes and drivers of a conflict, including the economic background. Planners, policy makers, and implementers of economic and private sector development programmes can apply the concepts developed by peace and security researchers to differentiate between the causes, the symptoms, and the de-escalating factors of conflicts. In order to draw conclusions for economic development support, it is advisable to focus on those conflict-related issues that are located within the economic sphere. This will allow donors to identify realistic entry points for conflict-sensitivity in economic and private sector development support. Analysing conflicts from an economic perspective means combining sources of economic data found in national accounts, firm-level surveys and household income and expenditure surveys, as well as qualitative data from business owners, government ministries and agencies, with the tools of peace and conflict analysis.

Suggested questions to help focus a holistic conflict analysis on mainly economic aspects (see also Figure 4):

- What is the conflict all about? What are the main conflict issues and the main lines of the conflict? What is the economic dimension?
- What are the root causes of the conflict? What economic dynamics (e.g. unequal access to markets or resources) are among the causes of the conflict?
- What is the intensity of the conflict (e.g. the extent and distribution of damage to livelihoods, businesses, market linkages, supportive infrastructure, lives lost, physical destruction)?
- What is the extent of the war economy (existing economic activity both legal and illegal)?
- What are the escalating and de-escalating factors of the conflict? Which of them have an economic dimension?
- Who are the economic actors within the conflict? What role do they have? What are these actors' capacities, interests and agendas as connectors for peace (e.g. interest in the free movement of goods and persons, or a role as a lobbying group for peace and stability vis-

à-vis the conflict parties), or as dividers for conflict (e.g. interest in continued violent conflict and instability to exploit economic opportunities)?

- What is the potential for new conflict or what possible scenarios exist for future conflict, based on current economic actors, interests, dynamics and opportunities?

	"Classic"	PSD Programming
Analysis	Conflict Profile	Socio-economic character of conflict
	Analysis of Causes and Factor	Root causes, escalating and de-escalating factors in the economic sphere
	Analysis of Actors	Economic actors and groups, chambers, sectors
	Trends/Opportunities	Economic dynamics of the conflict; winners and losers
Planning	Entry Points	- Address root causes - Reduce escalating factors - Support de-escalating factors
	Capacity Analysis	Check capacity of programme and partners for a systematic approach to conflict sensitive PSD
	Strategy Development	- Integrated approach - Macro, meso and micro level interventions

Figure 4:
Basic Peace and Conflict Analysis and Planning in PSD

From this conflict analysis the economic and private sector-related peace building needs can be discerned, which can then serve as a starting point for the planning of conflict-sensitive private sector support (see Box 1).

Box 1

South Sudan: The Importance of Understanding the Conflict Dynamic [2]

In January 2005 the government of Sudan signed the Comprehensive Peace Agreement with the Sudan People's Liberation Movement bringing an end to 22 years of civil war and outlining the basis for power and wealth sharing. In December of that year the South Sudanese Minister of Commerce, Trade and Supply requested help from the World Bank Group/Foreign Investment Advisory Services to attract investment into South Sudan.

South Sudan represents a particularly challenging environment for private sector development. The political and economic environment is uncertain and capacity poor, government structures are fragile and expectations for a peace dividend high. Years of conflict and outside intervention have created deep popular suspicion of foreign involvement.

Mistrust between north and south was strong. The government of South Sudan is keen to implement the CPA, begin economic development and attract foreign investors, but it remains fearful of northern dominance. As a consequence, it is firmly committed to circumscribing the influence of the northern-based government of Sudan. Understanding these issues was critical to effective private sector development.

As a way of dealing with this conflict dynamic, the World Bank and FIAS developed a separate programme for the south, a challenging and complex exercise given the fact that South Sudan remains a region rather than a country. Although the project is still ongoing there have been a number of successes, including a new investment law, a microfinance facility, industrial and mining facilities, business registration systems, a public-private dialogue forum and industrial and mining strategies. None of these would have been possible had the World Bank and FIAS not developed a programme sensitive to the region's political economy.

General goals and approaches for programming............................ 3.2.

The overall objective of conflict-sensitive private sector development is to address the twin goals of economic growth and peace, in other words, *to strengthen conditions for the growth of a stable, accessible, and competitive private sector and to contribute to a lasting and durable peace.* Taking this twin goal into account, economic and private sector development programmes in conflict-affected countries should define their specific entry point or approach to conflict-sensitivity. Essentially, these programmes can be grouped into those working in conflict and those working on conflict. They may follow one or more of the following strategic lines of intervention:

Working in conflict: Do-No-Harm

1. *Application of Do-No-Harm as a minimum standard:* Interventions take place in a conflict-affected environment but do not try to work on the conflict itself. 'Do-no-harm' is a basic intervention principle (see Figure 3 above) that must be applied in all programmes in such countries. This principle is intended to prevent economic development interventions from unwittingly supporting the escalation of conflict factors or hindering peace building initiatives.

Working on conflict: Do-No-Harm, in addition to directly addressing the conflict

2. *Addressing causes of conflict and escalating factors:* economic development interventions can directly address conflict causes that are related to the economy, such as unfair distri-

[2] Catherine Masinde (2008): From Diagnostic and Design to Implementation of Business-Enabling Environment Reforms in a Post-Conflict Environment: Lessons from Southern Sudan. IFC Smart Lesson.

bution of gains from resources, employment and income opportunities, or regional economic inequalities (see Box 2). Alternatively, other causes or factors of the conflict (which are not related to the economy) can be addressed indirectly through economic development interventions.

Box 2

Bangladesh: Addressing Social Inequalities [3]

In Bangladesh, social issues have seriously hampered the competitiveness of the ready-made garment industry - the core source of employment and export revenues for the country. Collapsing or burning garment factories claiming hundreds of victims are just the tip of the iceberg, and the extremely poor labour conditions have resulted in uncontrolled strikes by the workers. Unbalanced economic development and socioeconomic disparities are among the structural causes of conflict in Bangladesh. A peace building needs assessment identified the promotion of inclusive economic development and the reduction of socioeconomic disparities as priorities for the socioeconomic field.

Based on these findings, GTZ's PSD programme in Bangladesh reoriented the focus on social standards. The programme aims to contribute to economic development while at the same time establishing decent working and living conditions. PROGRESS, the Programme for the Promotion of Social, Environmental and Production Standards in the Ready-Made Garment Sector, supports the harmonisation of economic development in Bangladesh with international social and environmental standards. As such, the programme follows a multi-level and multi-stakeholder approach, cooperating with local suppliers, international buyers, the government, non-governmental organisations, and business associations in order to introduce social and environmental standards and promote arbitration models, while at the same time improving both production and competitiveness.

3. *Reducing the economic incentives for a conflict:* economic development interventions can try to reduce the economic incentives which fuel a conflict, for instance by offering alternatives to the production of illegal drugs or the mining of precious metals. Combating war economies can be a dangerous and complex task that may have to be linked to good governance or corporate social responsibility (CSR) programmes.

4. *Working on the effects of conflict and peace on the economy:* economic development interventions can help to mitigate the negative effects of conflicts on the economy. An example might be the development of alternative income opportunities for small businesses in war-affected areas. Similarly, PSD interventions can help to increase the positive effects of peace in post-conflict environments, for instance by giving business start-up support. An additional positive impact on stability and peace could be achieved by introducing conflict-sensitive criteria for companies working in post-conflict situations, such as through socially inclusive recruitment or community development projects.

5. *Supporting economic actors in crisis prevention, conflict transformation, or peace building:* economic development interventions can directly support key actors in the private sector who are contributing to peace (so called 'connectors', see also section 4.2 of this Note). These include businesses and organisations that could play an active role in crisis

[3] *GTZ (2008a). Guidebook - Private Sector Development in (Post-) Conflict Situations. GTZ: Eschborn.*

prevention, conflict transformation or peace building, because they have a strong interest in maintaining a stable, predictable framework for their economic activities (e.g. South Africa).

Box 3

Nepal: Business for Peace and Business Talks for Change

In Nepal, a GTZ-supported private sector promotion project encouraged chambers of commerce to establish a National Business Initiative for Peace (NBI). NBI promotes corporate social responsibility amongst its members and fostered dialogue between conflicting parties in the country about the urgent need for peace building.

Another initiative of the project are the Business Talks for Change. The topic of each Business Talk is an economic subject (e.g. foreign direct investment). The talks are by invitation only, which allows a small number of hand-picked participants – open-minded and high-ranking representatives from the public sector, the private sector and civil society, as well as foreigners working in Nepal – to engage in dialogue about real issues. Meetings are off-the-record and the media are excluded, which creates a relaxed atmosphere and encourages open discourse. Six of these meetings have taken place in the capital Katmandu since 2005. This safe space for decision makers to discuss burning issues or sensitive topics related to the business community and the national economy led to communication between the Maoist rebels and the government when all other channels were closed during the conflict. The Business Talks were able to bridge the gap between the conflicting parties.

Intervention Principles and Success Factors .... 3.3.

If reconstruction recreates the pre-conflict conditions, it can reproduce conflict and possibly a return to violence. A few principles can help reduce this risk:

- The actors involved in development interventions need to agree on the causes of their conflict and on potential solutions. Local awareness of the (root) causes and consequences of the (violent) conflict is often lacking, and external interventions can facilitate a joint appraisal and consensus building process. External perceptions of the conflict, and solutions generated by the international community from outside, are often irrelevant and can fail to address root causes adequately. The dynamics and relationships between actors and factors in conflict-affected countries can be extremely complicated, and the underlying political and social dynamics poorly understood by outsiders. Ultimately, the local actors themselves must agree on the causes of their conflict, and what solutions will work for them.

- Impartiality (giving support or benefits to all sides), transparency (providing everybody with the same information about intentions, activities, concepts, and working principles) and standards of behaviour are all critical for the credibility of a programme, and its acceptance by all sides (see Box 4). Agencies which expect conflict parties to behave in a certain way should lead by example, for instance by dealing with corruption by agency staff as seriously as would be expected of the conflicting parties.

Box 4

Israel-Palestine: The Importance of Impartiality [4]

In August 2005, Israel began its withdrawal from the Gaza strip. By 12 September the last Israeli troops had been withdrawn. The move created a mood of optimism amongst the Israeli, Palestinian and international communities, and it was proposed that the World Bank organise a joint Palestinian-Israeli Investors conference as a means of encouraging peace and economic growth.

Although investors on both sides were receptive to the idea there was a high degree of mistrust, both between the Palestinians and Israelis, and towards the World Bank which was seen by some Israelis as biased towards the Palestinians.

Against this background it was critical for the World Bank to establish and maintain neutrality if it was to bring people together successfully. This was done in two ways. The first was to understand local perceptions of where the World Bank stood in relation to local politics, and understand how the Bank's staff needed to act in the context of this local politics in order not to be seen as biased one way or the other. This was achieved in large part by relying on the knowledge of people working on the ground. The second way was to ensure that the Bank's team included the different types of people needed to carry out such a sensitive project, people with local knowledge and experience, "who could provide a fresh, unbiased perspective, credible to all stakeholders".

Despite political instability, the conference remained on track. An event was held in London bringing together all of the main public and private stakeholders, and a joint Palestinian-Israeli "Investors Declaration" was finalised.

Accepted development orthodoxy (see Box 5) might sometimes need to be temporarily suspended in post-conflict situations. For example, if there is no governmental or private sector capacity to make a risky investment in specific transport links (e.g. providing cold chain transportation to remote areas where local economic development is taking place), the international community could provide this support to stimulate economic activity until the government or private sector is willing and able to take over. In this example, it may be acceptable in a post-conflict country to run the risk of 'unsustainability' in an attempt to jump-start economic activity. In the same way, grants could help the quick start up of SMEs. However, donors who provide start-up financing with strategic and perhaps unsustainable investments need to set clear rules and limitations on the duration and volume of the support; and they must plan and communicate an exit strategy.

Box 5

Business Edge in Iraq: Challenging Orthodoxy [5]

Business Edge is the brand name for the International Financial Corporation's (IFC) international range of management training products for owners and managers of SMEs. In early 2006, the Iraqi-American Chamber of Commerce and Industry (IACCI) approached the IFC Business Edge Accreditation.

Operational hazards, constraints and inconveniences meant that effective project implementation required perseverance and a willingness to improvise and innovate. Two components of the Business Edge project were particularly difficult due to the violence and uncertainty in Iraq - the implementing of quality controls and the provision of training.

Quality control is a key component of the Business Edge programme. It was difficult to implement in Iraq because of restrictions on mobility and risks to personnel. To overcome the challenges, the project allied itself to IACCI's largest institutional customer which had a strong interest in quality control.

IACCI trainers needed to graduate from the Business Edge Train the Trainer course, but mobility restrictions prevented training from being conducted in Iraq. After exploring the various options it was decided that the most effective and feasible option was to fly trainers out to Jordan, where they could complete their course.

As a result of these efforts, 4,000 Iraqi business people could become entrepreneurs and the general Iraqi workforce received training for a period of a year, at full cost recovery to the IFC.

Economic recovery is one of at least four major areas of intervention used for post-conflict reconstruction in a transition country. In many cases of reconstruction, the international community has coordinated, to a greater or lesser extent, its division of labour across the fields of governance, justice and reconciliation, security reforms and socioeconomic development. Interventions in these sectors can be fruitfully linked in many different ways, so that mutual spill-over effects may be taken into consideration during their planning and management.

Box 6

Conflict-Sensitive Reintegration and Rehabilitation in Northern Mali

In 1990, the unfulfilled Tuareg demand for autonomy triggered a rebellion which led to armed conflict in Mali. The fighting lasted until 1995, when it was finally brought to an end thanks to the arbitration of the GTZ Program Mali North. The war caused the complete depopulation of the region, and the return of the refugees lasted until 1997. Since 1996, Mali North has supported the renewed settlement of displaced persons and refugees. In addition to building infrastructure, GTZ promoted the development of local business to enable people to generate their own income. GTZ then worked on sustainable economic stability in the region and the improved utilisation of the country's limited resources by addressing the issues of the destroyed infrastructure, the lack of state administration and the local population's struggle for survival.

The focus of GTZ is primarily on the Timbuktu region - the region most severely affected by the effects of the rebellion. In all its activities, GTZ has been careful to ensure that local people are involved from the outset and are provided with work and wages, thus giving new impetus to the local economy. This increases individual responsibility and promotes acceptance of the projects. Involving various sections of the population in the programme's advisory board and in the implementation of the project work on the ground reduces ethnic conflicts and disputes relating to land use and prevents the recurrence of violent unrest.

The money invested in labour-intensive projects has passed directly into the local economy and enhanced market demand (such as for cereals, everyday articles, small farm animals). The programme contributed to the survival of the local population by combining short and long-term measures, and the organisations involved ensured that the programme benefits were distributed evenly to all population groups.

[4] *Khuu, Kathy (2005) Investment Promotion in Conflict-Affected Countries. Lessons from an Investors Conference with the Palestinian and Israeli Private Sectors. IFC Smart Lessons Series*

[5] *Shohaieb, Mohammed & Nader, Rania. (2008). Gooooood Morning Baghdad! IFC Smart Lessons*

4 IMPLICATIONS FOR PROGRAMMING

4.1. ....Preliminary Considerations

Preconditions: Certain preconditions must exist to make the implementation of an economic development project feasible in a challenging conflict environment. The programme location should offer a reasonable degree of security and safety, businesses should be able to carry out their activities, there needs to be a clear - preferably governmental - counterpart,[6] there should be a minimum demand for financial or non-financial business services, and there should be a certain degree of population stability. Conditions which are not as crucial but which greatly facilitate economic development support, include macroeconomic stability (e.g. no hyperinflation), access to credit from commercial banks or microfinance sources, and minimal social capital (e.g. reliable human relations and minimal trust concerning the keeping/upholding of business conditions or contracts).

Integrated Programmes: As far as possible, integrated programmes are more effective than stand-alone projects. Integration means linking micro, intermediate and macro-level programmes (vertically), as well as the different private sector development interventions (horizontally). For example, public-private dialogue initiatives at local level can be linked with microfinance operations and the delivery of non-financial services (skills training, advisory services, etc.) to support productive investment and peace building in a recovery setting. In the same way, economic programme approaches at different levels of intervention (micro, intermediate and macro) should complement and reinforce each other and should be mutually harmonised in terms of the content, target areas and target groups, and should share conflict-sensitive working principles. For example, business registration reform could be combined with microcredit and the provision of business development services for SMEs in conflict-affected provinces to support economic development in a way that helps reduce tensions and conflict.

Public-Private Partnerships (PPP) are difficult to implement because companies generally shy away from visibility in conflict environments and because of mistrust between the private sector and government. However, these arrangements can be critical in bringing together mistrusting parties for dialogue to establish a shared reform agenda and for economic development; they are also important for advocacy and to provide feedback on what is working. A special opportunity for PPP exists among diaspora entrepreneurs and/or returning refugees.

4.2. ....Planning

[6] Finding a counterpart in fragile states, where the government has not been legitimised or is not functional, requires donor and implementation organisations to be open to more flexible approaches and partnership options.

Private Sector Development and Peace Building: Based on the analysis of a country's or a region's conflicts, PSD programmes can be designed to contribute to economic development and to peace building at the same time. Programmes on economic reform, regional economic development or business promotion should, as far as possible, address the root causes of conflict where they are linked to unequal access to resources, and they should work on key economic sectors to support economic recovery as a means of crisis prevention.

Connectors and Dividers: The economic capacities and interests of the parties to the conflict can be a source of 'connections', presenting opportunities to link mutual economic interests upon which social bonds can be built (see Box 7). Depending on the nature of the conflict, it may take years for economic benefits to overcome hostility. Alternatively, these same capacities and interests could represent drivers of the conflict, where economic opportunities from the conflict are an incentive to continue with violence. In countries recovering from conflict a trade-off exists between supporting the restoration of an open, competitive market and support for a fair, inclusive market. As an example, the challenge of unemployment needs to be addressed in most post-conflict economies, which means striking a balance between the development of a competitive labour market and inclusive employment.

Box 7

The Philippines Dayawan, Marawi City: Private Sector Activity as a Connector [7]

Dayawan, Marawi city, is a poor barangay[8] in the conflict-affected autonomous Muslim region of Mindano. It is known for its intricately designed, woven products. Handloom weaving is a home-based industry for the women of the region. In times of conflict it is the women who carry out the task of raising the family and providing an income.

The handloom weaving project was launched by the Philippine Foundation for Resource Management (PFRM) with financial support from the Philippines-Australia Community Assistance Program (PACAP), to support women working in the handloom weaving industry.

Over an 18-month period the project helped women weavers of Dayawan, Marawi city to increase their income by providing revolving capital, equipment technology, and product upgrading, promotions, marketing, training, capacity building, and organisational and project management.

The project helped to promote peace and development by providing families with an increased income, by encouraging new business start ups and by providing an opportunity to organise the community around a constructive, non-violent project.

Mutual Interdependence and Multiple Effects: A two-way impact and risk assessment for PSD programmes can help to map the ground for the intervention by asking, "What are the planned, positive and unplanned, negative effects of the proposed crisis-preventive PSD measure on the conflict situation and peace building?" and, "What is the effect of these measures on the private sector as such?"

Target Area: The selection of the target area for the intervention should take into consideration the geographical areas and territories that have been strongly affected by the conflict, just as much as it should consider historically successful economic regions. Persistent causes of conflict, such as uneven access to economic opportunities or resources, have to be addressed by a careful selection of the intervention zones, especially if that area is predominantly populated by one of the parties to the conflict. Striking this type of balance is a part of the Do-No-Harm principle.

Target Group: Target group analysis and selection must be done thoroughly in order to avoid huge disparities which could, at a later date, reignite or worsen the conflict. The minimum requirement is that the project should not be perceived to be partial towards one of the conflicting groups. As with the selection of the target areas, choosing groups known to have a high economic potential may not be the right approach. Stakeholder mapping may be a helpful tool for this targeting. Programme structures must strike a careful bal-

7 Padilla, Lourdes, Marina (2007) Weaving Peace and Equality in Conflict: The Handloom Weaving Enhancement Project of the Women of Dayawan, Marawi city

8 Barangay is the smallest administrative division in the Philippines.

Box 8

Beginning at the Beginning: Sequencing Reform in Bosnia [9]

Not all conflict-affected countries are the same, and the sequence of interventions varies from place to place. When FIAS assessed the role it could play in Bosnia, it decided to wait until humanitarian assistance was under way. People were returning to their areas and the focus of the government during this time was on the emergency relief.

Additionally, it was difficult to begin regulatory reforms until some public finance and institutional counterpart foundations were in place. Key macroeconomic structures, such as a common currency system, a single central bank, and the centralised control of taxation policy needed to be established before work on a common legal and administrative procedure framework could begin. Basic government functioning was very weak and it was not always clear who the appropriate governmental counterparts were.

At the sub-national level, ethnic animosity was reinforced by firm entity boundaries within the country, which made it difficult for economic exchange to begin again. Much of the economy was illicit or informal, with a high degree of corruption at all levels. Without stronger national-level institutional structures, local resistance to national reforms remained strong.

FIAS began its assistance to Bosnia and Herzegovina with a new law on FDI, published in 1998, as a first attempt to bridge the institutional gaps between entities and to test the attitudes to reform. Next, FIAS wrote an Administrative Barriers Report, which also reviewed the commercial legal framework. This report then formed the basis for a multi-donor Business Adjustment Credit programme that enacted the recommended reforms of the report. It also served as the basis for the stand-alone PSD reform work of other donors. The document provided a map of the reform landscape at a time when the transition from humanitarian relief occurred, and it allowed flexibility in the sequencing of reforms so that more than one agency could take on urgent reforms but within a coordinated framework.

[9] Interview with Margo Thomas, Manager for Business Enabling Environment, IFC PEP South East Europe.

ance between a special focus on youth, ex-combatants, IDPs and refugees, or women, and a more general, community-targeted approach that does not distinguish between population groups.

Partner Selection: Partners must be selected carefully. Their neutrality, professionalism, capacity, and trustworthiness should be thoroughly assessed. It is unlikely that any person selected as a partner or any organisation in a conflict area is neutral, so partners need to be assessed for their agenda (either open or hidden) and how they are intertwined in local power structures. It may be necessary to identify a number of organisations for collaborative purposes that can bring mutual accountability, inclusiveness, and balance. The same applies for local staff selection.

Direct vs. Indirect Intervention: A guiding principle for selecting implementing agencies should be to avoid creating artificial structures, and to use existing institutions and bodies as much as possible. However, building up parallel structures in the immediate aftermath of a conflict is often a necessary evil for the implementation of international reconstruction efforts. This might result in the replacement of indigenous structures and the withering away of indigenous capacities. In the worst case, parallel structures are disconnected from local contexts and do more harm than good. To mitigate the negative effects, careful planning is crucial. Capacity development schemes need to be integrated into any such endeavours in order to increase the chances of sustainability, and as part of a hand-over plan.

Long-term vs. Short-term: Conflict situations require sensitive sequencing and timing for both quick impact activities and mid to long-term interventions, if they are to lead to sound and sustainable economic development. Quick and tangible results, which are often needed to help consolidate the peace ('peace dividend'), must be balanced against efforts that may only yield results in the longer-term. For example, quick impact, low-skilled employment schemes (especially for youth or ex-combatants) can yield results in the short-term, while building up support services for SMEs can yield results in the medium-term, and legal or regulatory reforms can yield changes in the long-term. As all these are needed, and as not every agency can or should engage at all levels, good coordination between agencies can help to ensure all levels are addressed. Long-term commitment from the project and partner organisations and a realistic exit strategy that is developed and implemented from the beginning are necessary to ensure success.

Sequencing in the Context of other Interventions: Ongoing relief and reconstruction efforts will affect the sequencing of economic interventions (see Box 8). Local level private sector support could be timed with the return of displaced persons to the areas of their choice, while the collapse of state institutions may mean it takes time before a legitimate government counterpart exists that can champion policy reforms. War-time faction leaders may remain in power in some form after the end of violence, maintaining their interests and threatening to spoil peace efforts by blocking economic opportunities for some groups, or by resisting reforms.

Implementation.. 4.3.

Capacity Development: It is crucial to identify and build on local capacity, which is something that can be strengthened. Post-conflict societies are often largely drained of indigenous capacities, not least because of the recruitment of staff by international agencies. Nevertheless, there remains an important array of actors whose capacities need to be strengthened in government, the private sector and civil society alike. Multi-level interventions are particularly important in post-conflict environments to help rebuild the capacities of governments, institutions and the (business) people. Special focus is needed for identifying drivers of change. A particular issue for capacity development in post-conflict societies is the establishment of networks and inter-institutional platforms, through which new coalitions can be established, conflicts of interest dealt with and roles agreed upon.

Involving diaspora communities in capacity development holds great potential, as they are often repositories of knowledge, resources and - not least - commitment to reconstruction. However, the inflow of diaspora members and their resources into fragile and volatile environments is a delicate, complex and often highly politicised process. International actors need to be aware that diaspora members who have been away for a long time might have just a limited understanding of the new complex social situations on the ground.

As with all post-conflict reconstruction, there is a need to (re-) develop a 'culture of compliance', i.e. new attitudes and behaviour that respect for the rule of law. Whether for policy reform or project implementation, this behaviour requires accountability, transparency and results-orientation, and should follow best practice laws and administrative procedures. Support for a culture of compliance involves a public-private dialogue that facilitates business and government discussions about practical reform steps; it involves institution building that not only helps institutions gain the skills and knowledge they need for reform, but which actually helps them effect the reforms; and it involves change management to help people change the way things are done using time-intensive coaching and mentoring.

Capacity development is thus not a technical exercise or a good in itself but is concerned with the gradual construction of enabling conditions for peaceful development, which is the biggest challenge facing societies emerging from war. In PSD projects, capacity development could also include support for the design of regulations that favour investment, broad access to resources and financing, and access to business development services for the private sector. Capacity development is as much about changing attitudes and mindsets as about technical or policy expertise.

Box 9

Tajikistan: Basing Interventions on Local Resources [10]

For private sector development to be effective it needs to be based upon local economic strengths. The IFC's intervention in Tajikistan is an example of where this happened.

Tajikistan experienced five years of civil war between 1992 and 1997. The country is the poorest of the former Soviet Republics. As part of the recovery process the IFC launched a project to assist with financing for the cotton industry.

This focus was chosen on the basis of importance of the cotton industry. Despite being devastated by the war cotton remained critical to the economy. It was the country's third largest export, provided a great deal of hard currency and employed approximately 75% of the rural population.

Working with regional banks to develop loan products for small and medium sized cotton farms, the programme also provided training on the specifics of lending to smaller farms, as well as borrower supervision and lending review. So far farmers have accessed $79,500 in loans. A key component of peace building is creating economic alternatives to conflict. By helping to sustain a key part of Tajikistan's economy Private Sector Development contributed to the peace building process.

Local Resources as Inputs: Project interventions and the development of products and services should be based on existing economic resources (local experiences and enterprises, surviving industry and infrastructure), and on the clients' basic needs (safety, food, health, shelter, skills and education) as well as the community's historical comparative advantage (see Box 9). Examples include life insurance products for low-income earners or vocational training for low-cost house construction. Target groups generally prefer tailor-made products and services to standardised ones. Special target groups may need specialised products or approaches. Examples in this case could be enterprise start-up loans and coaching for families of ex-soldiers, or support for displaced persons to run mobile businesses that they can eventually take back to their hometowns. However, as markets in conflict-affected countries are distorted or fractured, with a mixture of legal, informal, and illegal economic activity, interventions should not support black markets or war economies.

Local Economy: Projects should help the target groups and partners to make use of the new business opportunities created by the conflict dynamics, such as migration of labour, new businesses (even if informal), the break-down of binding traditional market structures, and the opening of new markets, new technologies and new investments in post-conflict situations. Taking advantage of new opportunities helps to revitalise local economies and

10 Wright Steven, Ergashev Adkham, and Rolf Behrndt. (2008). Culture War and Cotton: South Tajikistan Cotton Lending Project. IFC Smart Lesson.

contributes to stability. In the same way, donors should ensure that local companies are contracted whenever possible for infrastructure projects or for food-aid delivery. The contracted firms should be committed to conflict-sensitive operations and to working principles such as 'Do-No-Harm'.

Risk Mitigation: Donors need to be aware of the risks to their programmes in the country of intervention. While some risk is inherent in post-conflict countries, donors can take steps to protect staff and assets. Safety policy and measures must be followed to ensure adequate security is in place in the day-to-day operations of a project. For example, cash handling for project transactions must be physically as well as financially well managed.

Donor Coordination: Particular challenges to effective donor coordination in post-conflict situations result from the weak administration and limited capacity of governments to absorb aid, and the different political interests and priorities of donors, who face strong disincentives to working in close partnership with other actors. Collaboration can be hindered by the need for an agency to compromise on its plans, a weakening of an individual agency's policy agenda and visibility, and also by the higher transaction costs for extensive consultation. Despite these challenges, coordination is imperative to avoid doing harm through numerous interventions and their unintended consequences (see Box 10). What is more, multi-level interventions for economic development in these complex environments, as well as long and short-term interventions, often exceed the capacity of single donors.

Box 10

Afghanistan: Donor Coordination and the Afghan Investment Support Agency (AISA)

GTZ and FIAS provided separate, but complementary, support to the Afghan Government in the establishment of the Afghan Investment Support Agency (AISA), which started operations in September 2003. AISA is mandated through the Afghan Investment Law, which also established a High Commission on Investment. The High Commission oversees AISA and is the highest administrative authority to implement the investment law. Support to AISA aimed at improving the investment climate by setting up an efficient institution.

FIAS did a needs assessment for AISA and developed a three-year business plan; it published marketing materials and trained investment promotion specialists. FIAS also assisted AISA by co-sponsoring its U.S. road shows in Washington, New York and San Francisco, providing guidance to AISA staff on how to approach potential investors.

Through GTZ programmes, AISA became a successful one-stop shop for the registration of new enterprises: domestic and international investors could register their business with AISA, which then handled all the formal requirements for opening a business in Afghanistan. AISA reduced the time necessary for the registration of a business to one week - which is short even by OECD standards. AISA also supported investors to navigate the difficult business context. And, as a capable institution, it acted as an advocate for the private sector in the reform process and also for transparent non-discriminatory governance in general.

During its first two years, AISA facilitated the establishment of more than 3,300 enterprises with a planned investment of more than USD 1.3 billion and an expected 130,000 jobs.

Note: Programme support to AISA was by MIGA, part of the World Bank Group. In July 2007, MIGA's advisory service merged into FIAS'."

CONCLUSION

Recovery from conflict and development requires addressing private sector and peace building issues in an integrated fashion. This is not straightforward and requires careful attention to the sometimes differing assumptions and goals of each approach. Finding creative ways to pursue both economic development and peace means being intentional through-out all aspects of programme design. The decisions to work on conflict - both substantively and methodologically in a 'Do No Harm' fashion - are an important first step that must be matched with an adequate analysis of a conflict and attention to success factors that are particular to the unique challenges of countries emerging from conflict. Allowing peace building principles to guide planning and implementation choices are critical to building on previous analysis and aligning project resources in a manner that is sensitive to the realities of a conflict's causes and dynamics. Without this holistic approach, the twin goals of private sector development and peace building will be even more difficult to obtain in the already extremely challenging conditions of post-conflict reconstruction.

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AISA	Afghan Investment Support Agency
BMZ	German Federal Ministry for Economic Cooperation and Development
CSR	Corporate Social Responsibility
DCED	Donor Committee on Enterprise Development
DFID	UK Department for International Development
DNH	Do-No-Harm
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit GmbH
IACCI	Iraqi-American Chamber of Commerce and Industry
IDP	Internally displaced persons
IFC	International Finance Corporation
JTMM	Janatantrik Terai Mukti Morcha
MIGA	Multilateral Investment Guarantee Association
NBI	National Business Initiative for Peace (Nepal)
OECD	Organisation for Economic Co-operation and Development
PACAP	Philippines-Australia Community Assistance Program
PFRM	Philippine Foundation for Resource Management
PPP	Public Private Partnership
PSD	Private Sector Development
SME	Small and Medium Sized Enterprise

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