

Integrating socio-economic recovery into post-conflict stabilization programmes

Summary

Economic development and violent conflict are closely interconnected. Whereas conflict hinders sound economic growth, economic activity and actors can play a role either negatively in causing instability, or positively in building peace. This means that socio-economic recovery must be integrated into existing post-conflict recovery strategy and policy. Current donor approaches need to be reconsidered, as they generally focus on social assistance, security and democracy-building, sidelining economic issues for later on in the process. The potential impact of socio-economic recovery on stability and peace consolidation justifies its integration, right from an early recovery stage, into reconstruction and stabilization programmes. Economic activities that provide tangible results and help to consolidate stability should be prioritized. At the same time, however, economic recovery requires attention to state-building. Limited state capacity impedes the creation of a business-enabling environment, including physical security, which is needed to stimulate and support economic recovery in the medium to longer term. In addition, integrated conflict assessments should incorporate the economic dimension into security and governance components of reconstruction efforts.¹

Conflict and development are closely linked

Economic factors can play a role in causing or helping to maintain conflict, e.g., where different groups fight for control over resources or seek

to redress socio-economic inequalities through violence. Accessibility of economic resources to fund armed struggle can be one of the factors causing an armed conflict to break out. A low level of gross domestic product (GDP) and a sudden decline in economic growth negatively correlate with conflict, while higher GDP levels lower the chances of conflict². Income inequality along ethnic or religious lines contributes to friction between groups and can be used to mobilize groups to take up arms. According to the World Bank, it is the lack of economic opportunity and resulting competition for scarce resources, more than ethnic, political and ideological issues, that have lain at the root of most conflicts over the last 30 years³.

Conflict in turn affects the economy, causing income poverty, disrupting economic activity and destroying livelihoods. Post-conflict environments share a number of socio-economic consequences of conflict, which are outlined below. Even though

¹ This policy brief is partly based on: M. Van Beijnum, L. Specker and T. Anthony, "Economische Wederopbouw na Gewapend Conflict: een beleidsverkenning" (Economic Reconstruction after Violent Conflict: a policy map), Clingendael Conflict Research Unit, December 2007."

² P. Collier (2007), *The Bottom Billion: why the poorest countries are failing and what can be done about it*, Oxford University Press, pp. 18–26; International Peace Academy (2006), "Strengthening the Economic Dimensions of Peacebuilding: conflict sensitizing economic interventions by external agencies in conflict prone and conflict affected countries".

³ James D. Wolfenson, remarks made during an address to the United Nations Security Council, reported on the World Bank's website, New York (15 April 2004), <http://web.world-bank.org>.

the challenges of post-conflict economic recovery vary from country to country, the commonalities that exist call for a systematic integration of socio-economic reconstruction into peace-building efforts.

Economic regression

Post-conflict states are often faced with economic regression, with multiple causes. A large part of the workforce may have participated in the conflict, or may have become victims of it. Assets have been destroyed, hampering production processes. Entrepreneurs and workers face higher direct costs for security and transport. At the same time indirect costs rise, e.g., through the loss of business opportunities and inflation. Destroyed infrastructure further impedes the supply of products and constrains the mobility of people. The result is disrupted macro- and micro-economic balances. One of the more destabilising consequences is generally an exceptionally high rate of unemployment. Also the existence of war economies is of crucial importance, with warlords or other conflict entrepreneurs controlling profitable economic sectors.

Deterioration of infrastructure

Armed conflict severely affects all types of infrastructure in a country. Destruction of physical infrastructure such as roads and buildings makes it difficult for businesses to operate, isolates local markets, limits access to agricultural land and impedes education and healthcare. Likewise, legal and financial infrastructure, such as land and property rights, tax regulations and payment systems, may be severely damaged.

Social decay

One of the less visible but more persistent effects of armed conflict is that it affects social cohesion and trust between people, fundamental for engaging in (economic) relations. As conflicts are frequently fought out along group lines, economic relations often remain limited to one's own group. Post-conflict states are faced with a loss of social capital (network and contacts) as well as human capital (workers with their knowledge and skills). Massive displacements during the conflict may have led to localized depopulation, particularly in rural areas, which may disrupt agricultural production. The resettlement of returning refugees, displaced persons and ex-combatants usually presents severe social challenges, exacerbated by widespread socio-economic deprivation and high unemployment rates.

Weak governance

Post-conflict state institutions are often fragile, lacking both legitimacy and capacity. State institutions may be weak as a result of conflict. Recently, however, state fragility has come to be considered also as a possible cause of conflict. In any case, the practical capability of a government to effect reforms needed in a post-conflict setting can be seriously compromised. On the other hand, post-conflict situations may present windows of opportunity to correct defective economic policies that may have contributed to the conflict. Strong state institutions are critical for (effective) economic policies and the creation of an enabling business environment, including a reasonable level of security.

Economic policy-making in post-conflict and fragile states should take these factors into account and aim to establish conditions for self-sustaining economic growth, while addressing major risk factors for conflict recurrence. These challenges mean that donor engagement is needed in the various phases of recovery, each requiring different types of interventions to be prioritized. Fragile and post-conflict environments are in need of extensive reforms, but coping with all of them immediately is not a viable option.

Focus on activities producing a peace dividend in the early recovery phase

Especially during the early recovery phase, the creation of visible results and a peace dividend is crucial for the stabilization and peace-building process. It requires prioritization of economic activities that help to consolidate stability, provide tangible results and enhance income generation. Instant results are particularly needed, to mitigate the risk of instability or a return to conflict. There is often no time to await the benefits of economically more efficient solutions. For instance, foreign investors may work in a more economically efficient way, but generally they will not be attracted to a country until conditions are more favourable. Local or informal investors, on the other hand, may generate instant employment and provide visible results in the short term.

a) *Systematically integrate socio-economic recovery into stabilization and peace-building programmes.*

The potential impact of socio-economic recovery on stability and peace consolidation justifies its integration from an early stage into reconstruction and stabilization programmes. Practice, however, suggests that donors often do not have adequate response mechanisms or capacity to deal with socio-economic recovery needs during the early post-conflict aftermath. Most donors have separate budget lines for humanitarian aid and structural socio-economic development, with neither of these budget lines allowing funding of early recovery activities in between these phases. Moreover, especially at a field level, socio-economic recovery requires qualified staff capacity, in terms of both numbers and qualifications. In order to support the delivery of quick and tangible results through economic recovery, donors should therefore match their ambitions with adequate resources and instruments.

b) Focus on local investors and include the informal sector. Local investors, including those operating in the informal sector, play an important role in the early recovery phase. Local investors are often providers of early investment and jobs. They are less risk-averse than foreign investors who, moreover, generally require more favourable conditions if they are to be attracted. Likewise, informal private sector actors are often flexible and can play a significant role in terms of low-level economic activity. They may even be providing the only economic activity left, offering at least some basic services to the population. Even though informal suppliers may be less economically efficient and not legally recognized, it can be quite effective in terms of the peace dividend to permit them to continue in their activities and gradually integrate them into more formal markets. Micro-finance projects and business associations are both ways in which donors can engage with smaller-scale, local entrepreneurs. Micro-credit and micro-finance projects have proved to be effective and can operate in quite unfavourable conditions. Such projects, however, need to be complemented by improvements in the larger-scale financial sector in order to make longer-term economic recovery possible. Generally, the local private sector is also the motor for more sustainable economic growth in the longer term.

c) Prioritize activities that contribute to stabilization What is important in early recovery phases is that there are visible results to contribute to the peace dividend. This requires pragmatic, short-term and

flexible programmes to stimulate demand and create jobs. The ability to prioritize key activities is crucial in this process. During an early recovery phase, for instance, employment creation, even if short-term, for specific beneficiaries such as ex-combatants, high-risk youth, internally displaced persons and refugees should be prioritized. In later post-conflict phases, policy-makers can widen the scope to also include other participating economic actors. Likewise, during the immediate post-conflict phase, private sector development may also take place even in the absence of good financial institutions and macro-economic structures. Nevertheless, because building up such structures takes time, it is important to address macro-economic issues relatively early in the post-conflict phase so that further growth and development will not be hampered in the medium and long run. Macro-economic structures become more important as soon as the local private sector becomes more stable and market-oriented.

Pay early attention to state-building

Practice indicates that questions remain as to how a positive interaction can be achieved between development, stability and state-building. There is a practical discrepancy between, on the one hand, the need for fast economic growth, employment creation and social service delivery and, on the other hand, the limitations posed by small markets, insecurity of investment and weak regulations and institutions. Limited state capacity is a constraint on the creation of a business-enabling environment, including the development and enforcement of laws and regulations. It should be noted, however, that there may be significant differences in the capacity of the various post-conflict state institutions.

a) Pay attention to state-building as early as possible in the recovery process State-building efforts should be started in the early post-conflict phase and, where possible, initiated already during the negotiations of a peace agreement. The state plays an important role in creating an environment that enables visible socio-economic results. Ensuring physical security, property rights protection and transparency in the justice system are central to improving the business climate anywhere, but particularly so in the high-risk environments of post-conflict economies. Laying a basis for an enabling environment immediately sends a powerful signal that may raise the

confidence of both domestic and foreign investors. An early start is also important simply because some state-building activities and creating favourable conditions for (foreign) investment take time.

Without policy-making and administrative capacity to generate economic activity, protect investments and provide basic social services, governments will remain vulnerable to poverty and renewed violence. A secure environment is the single most important factor for economic recovery and development. Investment in productive activities will be impeded if a state lacks the authority to provide basic security, reconstruction and resettlement. Economic recovery also requires the rebuilding of state capacity, for example, with the restoration of core institutions of economic governance and fiscal administration, and rebuilding a cadre of civil servants. Moreover, the legitimacy of a state is critical in order to be able to respond to local needs and ensure an equal distribution of economic growth.

b) Avoid excessive reliance on parallel mechanisms

When state institutions are weak, the private sector can play an important role in the delivery of basic services. Supporting the private sector may be more effective and offer an attractive alternative to state support. Chain development and micro-finance systems even involve partnering primarily with the private sector. However, there is a need to balance the costs of involving the private sector for service delivery and the benefits of building up state capacity to manage and deliver basic services to its citizens. The challenge is also to find a new role for the state, balancing reliance on the market as a regulatory force with the need for the strong government guidance that socio-economic development in post-conflict states requires.

Policy-makers should also be careful not to undermine the authority of a government by establishing parallel systems and institutions for core functions of the state. Engagement with the host government will be more effective in encouraging institutional change. Even though the private sector can ensure the delivery of basic services, there are risks that it may undermine governmental legitimacy. This is particularly so with respect to the provision of basic services, as this type of state involvement or the lack thereof will be most noticeable. The state should therefore retain some involvement in the provision of essential services, however limited it may be. Public-private co-operation may be a good way of ensuring

this. Placing local actors and resources at the centre of recovery efforts, however, should not mean undervaluing the crucial role of external assistance and the private sector, given the magnitude of needs and the capacities available on the ground.

Base policy development on socio-economic context assessments

The starting point of any socio-economic policy should be the specific characteristics and needs of the local economy in a post-conflict situation. Thorough integrated context analyses, strategy development and impact assessments are important elements of a proper preparation process of any post-conflict intervention. These assessments should, however, incorporate the economic dimension into security and governance components of reconstruction efforts. Socio-economic context assessments are important in order to ensure that socio-economic policies have the required impact on stability and are designed from a pro-poor angle. Moreover, issues of growth and distribution are often closely linked to prevailing tensions and conflicts, necessitating a conflict-sensitive approach. Even in later and potentially more stable recovery phases, donors should remain aware of the role economic factors may have played in causing or maintaining a conflict. In addition, economic recovery is likely to be more sustainable if it is grounded in the full understanding of the local dynamics and institutional processes. Existing Post-Conflict Needs Assessments or economic analyses of the World Bank can be used as a basis for such context and needs assessments. This will also encourage donors to strive to integrate their context analyses, supporting donor harmonization and easing operational problems with post-conflict assessments, such as the difficulty of acquiring local information in a conflict-affected area.

In addition, there is a need to monitor and evaluate progress and impact of socio-economic reconstruction projects. Existing monitoring and evaluations for economic recovery efforts typically have not been adapted to consider peace-building and stabilization aims, and they require considerable attention and further research. Apart from operational challenges, such as gathering information in a post-conflict setting, there are also significant conceptual challenges. Questions remain as to whether impact assessments should take into account poverty alle-

viation or economic growth, and to what extent monitoring and evaluation tools should measure the impact that economic recovery activities such as private sector development have on peace-building, security or reconciliation.

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ABOUT...

The Clingendael Conflict Research Unit

The Netherlands Institute of International Relations 'Clingendael' is a training and research organization on international affairs. The Conflict Research Unit (CRU) is a specialized team, focusing on conflict-related issues in developing countries.

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