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Policy Review: International and Dutch policies in the field of socio-economic development in fragile settings

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<tr>
<td>BCPR</td>
<td>Bureau for Crisis Prevention and Recovery</td>
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<tr>
<td>DCED</td>
<td>Donor Committee for Enterprise Development</td>
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<tr>
<td>DDE</td>
<td>Department for Sustainable Economic Development (Netherlands Ministry of Foreign Affairs)</td>
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<td>DDR</td>
<td>Disarmament, demobilisation and reintegration</td>
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<td>DFID</td>
<td>Department for International Development (UK)</td>
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<td>DSH</td>
<td>Department for Stability and Humanitarian Aid (Netherlands Ministry of Foreign Affairs)</td>
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<td>EFV</td>
<td>Department for Fragility and Peacebuilding (now DSH) (Netherlands Ministry of Foreign Affairs)</td>
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<tr>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<td>FSPs</td>
<td>Fragile States Principles: Principles for Good International Engagement in Fragile States and Situations</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>GIZ</td>
<td>Gesellschaft für Internationale Zusammenarbeit – German Federal Enterprise for International Cooperation</td>
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<tr>
<td>ICCO</td>
<td>Interkerkelijke Coördinatie Commissie Ontwikkelingssamenwerking – Dutch NGO</td>
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<td>ID</td>
<td>International Dialogue on Peacebuilding and Statebuilding</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INCAF</td>
<td>International Network on Conflict and Fragility</td>
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<tr>
<td>IOB</td>
<td>The Netherlands Department for Policy and Operations Evaluation</td>
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<td>IS</td>
<td>Internationale Samenwerking (International Cooperation)</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>ND</td>
<td>New Deal for Engagement in Fragile States</td>
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<td>NGO</td>
<td>Non-governmental organisation</td>
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<td>NL MFA</td>
<td>Netherlands Ministry of Foreign Affairs</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD/ DAC</td>
<td>Organisation for Economic Cooperation and Development/ Development Assistance Committee</td>
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<tr>
<td>PBSO</td>
<td>UN Peacebuilding Support Office</td>
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<td>PSGs</td>
<td>State and Peacebuilding Goals as agreed by the New Deal</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>WBG</td>
<td>World Bank Group</td>
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<td>WDR</td>
<td>World Development Report</td>
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<td>ZOA</td>
<td>Zuid Oost Azie – Dutch NGO</td>
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Foreword

The IS Academy ‘human security in fragile states’ started in 2009 with the aim to better understand processes of socio-economic recovery and the roles of formal and informal institutions under conditions of state fragility. This report analyses international policy trends relevant to this topic.

The report was commissioned to Anette Hoffmann of Clingendael’s Conflict Research Unit. She has analysed key documents and interviewed policy stakeholders to identify major trends and issues. Anette finds that policies geared to economic development in fragile settings on the one hand, and peacebuilding policies on the other, are increasingly converging, yet continue to show major differences in the ways problems are framed and solutions are proposed.

The convergences and differences in policies are exemplified in this report with an analysis of how policies deal with livelihoods, jobs and resilience; with the roles of local entrepreneurs and external economic actors; and with the ways in which institutions and elite pacts shape socio-economic development.

These three issues have been prominent in IS Academy research and the current report provides us with many insights that allow us to position our theoretical and empirical work in relation to policy. The IS Academy has a major objective in offering knowledge that enables learning for policy and practice. This report offers us the backgrounds, trends and contradictions in the policies we want to dialogue with.

The policy review brings out the potential gains of systematically dovetailing policies in the peacebuilding and economic development domains, in order to develop policy that is well-grounded in the social, political and economic realities in fragile settings. As such, it provides an important contribution to the broader discussion on peacebuilding and economic development.

Dorothea Hilhorst
Director IS Academy Human Security in Fragile States
Executive Summary

The last decade has witnessed the emergence of numerous policies seeking to improve people’s well-being and economic development in places that have come to be labelled as fragile: environments that are affected by or prone to violent conflict, or both. What are the major arguments, assumptions and trends that characterise these policies and what are the main issues on which they differ?

These are the questions the IS Academy Human Security in Fragile States sought to explore – in its final year – by commissioning a policy review of international and Dutch policies on socio-economic development in fragile settings. The aim of this review was to discern general patterns and trends and to identify key issues around which much of the current policy debate revolves.

Based on desk research and interviews with 15 policy experts, a number of influential Dutch and international policy documents were selected, analysed and compared in terms of their primary policy goal, problem analysis and proposed policy response. The general trends emerging from this review provided the framework for subsequent discussion of key issues that are likely to remain high on the policy agenda in the coming years.

**Dutch policies**

Among selected Dutch policy documents, the *Fragile States Strategy for 2008-2011 (Policy note of November 2008, Security and Development in Fragile States, The Netherlands’ Strategy 2008-2011)* was identified as the only Dutch policy document that addresses the complexity of socio-economic development in fragile settings in an integrated manner. Policy responses offered by other policies are much narrower. Whereas the security and rule of law policy focuses exclusively on public-driven socio-economic development, the growth-oriented policies combine a market-driven strategy with a foreign investment promotion angle, without specifying how this approach will respond to the particular challenges of fragility.

**International policies**

The United Nations (UN), the Organisation for Economic Cooperation and Development (OECD), the International Dialogue on Statebuilding and Peacebuilding (ID) and the World Bank (WB) have all played an important role in forging consensus on a number of issues that are critical in supporting socio-economic development in fragile settings.

With its three-track-approach to post-conflict reintegration, the UN has provided a framework to promote the critical link between early recovery and longer-term socio-economic develop-

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1 The IS Academy stands for International Cooperation (Internationale Samenwerking) and is a cross-sector research project between academia, development organisations and policy-makers sponsored by the Netherlands Ministry of Foreign Affairs.
ment – a framework that has been widely adopted by UN agencies, notably by the United Nations Development Programme (UNDP) and the International Labour Organization (ILO).

The OECD and the ID, in turn, have widened and deepened our understanding from classical post-conflict situations to the more structural factors of fragility and its multiple interactions with socio-economic development. A particular achievement is the increased ownership of 18 fragile state governments determined to assume greater responsibility for international development efforts in their countries. These countries have called upon their development partners to adopt a new way of development cooperation that conceives all interventions in line with peace and statebuilding goals and engages the private sector in policy design and implementation.

Finally, the World Bank with its influential World Development Report on Conflict, Security, and Development (WDR, 2011) has created momentum for greater international agreement with regard to the three priority areas (security, justice and jobs) and the form of engagement. While the call for a focus on jobs rather than on service provision has been widely absorbed by international and bilateral socio-economic development policies, this policy review suggests that the actual paradigm shift introduced by the report relates to its central message: that the particularity of fragile settings and the peculiar challenges to socio-economic development in those environments are deeply political in nature.

The ability and readiness to recognise and carefully engage with informal power networks and entrenched systems of patronage will ultimately decide the longer-term success or failure of socio-economic development and the transition from fragility to resilience. This will require a shift away from technocratic approaches to a politically informed and sensitive engagement.

**Converging trends**

The comparative analysis comes to the conclusion that the policies under review essentially stem from two distinct policy fields that can broadly be attributed to the spheres of economic development on the one hand and peacebuilding on the other. Furthermore, policies from these two fields are found to be undergoing a converging trend. While in the past they developed largely independently from one another, the complexity of fragile settings has prompted their mutual rapprochement.

Policies, primarily aiming at stabilisation and peace-building increasingly take account of and seek to address economic factors of conflict and fragility. UN policies on reintegration and economic recovery and the Dutch Fragile States Strategy (2008-2011) illustrate this trend. These policies also show increasing awareness of the risk of market distortion and of the need to link short-term results to more sustainable economic prospects. Finally, peacebuilding policies demonstrate greater readiness to engage the private sector. The New Deal for Engagement in Fragile States exemplifies this trend and more explicitly the Busan Partnership.

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agreement calls for innovative partnerships with private businesses for more effective forms of engagement.

Economic growth-oriented policies, in turn, have started to pay greater attention to the multiple interactions of political and economic interests and incentives that drive fragility. For example, the World Bank in its 2011 WDR points to the risk that issues like unequal access to and distribution of wealth can be easily reinforced by economic development policies if carried out in a business-as-usual manner. To avoid exacerbating tensions, economic interventions should be based on a thorough understanding of the political marketplace, and designed, implemented and monitored in a conflict-sensitive manner. This requires a shift from working in fragile settings to working on issues of fragility.

In principle, the rapprochement of these two policy fields on the topic of socio-economic development in fragile settings has unleashed significant potential for leveraging complementarities and comparative strength, hence preparing the way for more systematic joined-up policies and partnerships. Closer cooperation, rather than total convergence, of peacebuilding and economic development will be critical in addressing the complex factors that make certain regions fragile.

**Key issues in current policy debate**

To date, competing definitions and priorities seem to prevent this potential from unfolding. However, what may appear as competing discourses on jobs and livelihoods, local and external economic actors, and institutions and elite pacts, in fact offers the necessary ingredients for a comprehensive approach to promote socio-economic development in fragile settings.

*There are compelling arguments for continued attention to livelihoods in future policies.*

First, while the focus on livelihoods in their multiple facets has been and continues to be a defining theme and approach in UN policies, notably by the UNDP and ILO, the concept has largely been absent from the influential WDR. Yet, analysis from this research concluded that despite the obvious shortcomings of the concept, there are compelling arguments for continued attention to livelihoods in future policies. What may be emphasised as a limiting factor – its natural focus on households and the community level – is in fact its comparative strength. If complemented by other analysis frameworks at higher institutional level (e.g. resilience), the livelihoods approach, with its tools and systems, could play a critical role in gathering the much-needed empirical evidence on how fragility impacts on households and to what extent socio-economic strategies are successful in countering this impact.

*The apparent contrast between enthusiasm for foreign investors and growing readiness to support local economic actors who operate below the radar of formal regulations is not an ‘either/or’ matter.*

Second, the apparent contrast between a mounting enthusiasm to welcome foreign investors
to the scene of development and peace and the growing readiness to extend support to those local economic actors who operate below the radar of formal regulations is not a matter of ‘either/or’. A better understanding of both actors bears relevant insights into the trade-offs of economic efficiency in contexts of fragility and high risk and into (economically less efficient) local coping strategies that can foster resilience. In the end, conflict-sensitive socio-economic development will require both the resources and commitment of external economic actors and their embedment in the local economy.

The actual paradigm shift of the 2011 WDR consists in its elaborations on the prevalence and significance of elite pacts and power networks

Third, what this review unpacked as the actual paradigm shift of the 2011 WDR consists in its elaborations on the prevalence and significance of elite pacts and power networks that shape or undermine the formal and informal institutions in fragile societies. Whereas the report’s general emphasis on the importance of functioning, inclusive and impersonal institutions has travelled with ease into all policy documents, these more challenging acknowledgements of highly political interdependencies and the call to engage with so-called ‘inclusive-enough’ coalitions are largely neglected in the policies reviewed. While donor policies generally recognise the complexity of fragility and commit to thorough political economy analysis, the implications of such analyses are yet to translate into politically informed and sensitive approaches.

The key to overcoming the political, practical and organisational obstacles likely to hamper this process may lie, once more, in a better understanding of the comparative advantages of different policy domains and greater readiness to partner-up with other policy communities and implementing organisations that are better equipped to do the job. Indeed, there is a difference between acting upon a sound understanding of internal political affairs and actual interference. Understanding and using political insights may not necessarily require exceeding one’s mandate. Rather, a better understanding of the incentives and opportunities of local actors will help to decide how to focus and design interventions in fragile situations more effectively. Insights into the political economy of state- and peace-building will further help to decide when and where it is appropriate for socio-economic development actors to refrain from providing support and/or partner up with other organisations that are better equipped to carry forward the political dialogue.

Ingredients for a comprehensive and balanced approach to socio-economic development in fragile settings already exist and have complementary strengths.

Evidence from the policies reviewed for this study suggests that the ingredients for a comprehensive and balanced approach to socio-economic development in fragile settings already exist and have complementary strengths. The question now is whether these new insights are taken forward in more systematic collaboration between policy-makers of both the peace-building and economic development domains. Future research can encourage and guide such collaboration.
Introduction

In recent years, the issue of socio-economic development and job creation has taken centre stage in international thinking on conflict and peace. In various policy domains, efforts are undertaken to more systematically address the interdependence between socio-economic development and peacebuilding, with greater awareness of the political and economic factors involved. Overall, these trends are part of a broader paradigm shift that commands a deeper understanding of the multi-layered nature of fragility and hence the need for multi-sectoral and conflict-sensitive approaches to respond more effectively to the complex challenges at stake.

Since the start of the Internationale Samenwerking (International Cooperation – IS) Academy Human Security in Fragile States in 2009, this paradigm shift has taken shape: international flagship reports such as the 2011 World Development Report on Conflict, Security and Development (WDR, 2011) have ushered in a period of policy reforms and refinement, resulting in new policy documents on how to foster socio-economic development in fragile states or, from a governance or peacebuilding angle, on how to integrate sustainable economic development as an essential component in state- and peacebuilding processes.

With the ultimate aim to increase both the policy relevance of research and the quality of policy-making in the field of international cooperation in fragile environments, the IS Academy has conducted in-depth research ‘to better understand processes of socio-economic recovery and the roles of formal and informal institutions under conditions of state fragility’. These efforts have been undertaken in a cross-fertilising exchange with academia, NGOs, policy-makers and the private sector. In its last year of operation, the IS academy decided to commission a review of Dutch and international policies on socio-economic development in fragile settings in order to identify common policy trends and present key issues around which much of the present policy discourse revolves.

Objective and scope of research

This report presents a review of selected Dutch and international policy documents dealing with socio-economic development in fragile and conflict-affected environments. The twofold aim is to:

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• discern general patterns and trends, and
• identify key issues that are taken up and presented in different ways in various policy circles.

More specifically, the review seeks to identify those arguments that have found their way into major policies and uncover the nuances and underlying assumptions that either gained prominence or got lost in the policy-making process. Lastly, this review aims to offer some explanations with regard to the prevalence of certain themes, their underlying assumptions and nuances, their likelihood of remaining high on the agenda in the future, and the absence of other related topics.

As the initiator and major funder of the IS academy and a targeted user of this research, policies issued by the Netherlands Ministry of Foreign Affairs receive special attention in this report. Policies of other bilateral donors were not systematically reviewed and are used for illustrative purposes only.

**Methodology**

While policy research explores ‘a fundamental social problem in order to provide policymakers with pragmatic, action-oriented recommendations for alleviating the problem’ (Majchrzak, 1984: 12), this policy review started by analysing existing policies and tracing some of the ways in which certain ideas about, and interpretations of, social problems relating to fragility, socio-economic development and peacebuilding have influenced policy-making at various levels.

First, influential policy documents were selected for review based on desk research and in-depth interviews with experts (see Annex A for a list of interviewees). These documents were reviewed to identify their commonalities and differences and discern common trends (see Annex B for a full list of documents reviewed). Finally, three key issues emerging from the interviews and review were discussed at a workshop with experts from the Netherlands Ministry of Foreign Affairs and non-governmental organisations (NGOs).7

**Defining the key concepts**

In recent years, the international discussion around fragility, conflict, state- and peacebuilding has developed a deeper understanding of environments that have experienced violent conflict (the typical post-conflict countries) or are prone to crisis, or where both are true. Taking into account the fact that more than half of current conflicts occur in countries that have recently resumed civil war (Collier, 2004: 2), and that social unrest may grow and evolve into broad-based violence in otherwise stable countries (as demonstrated by the Arab Spring), the conventional policy focus on ‘post-conflict countries’ has been broadened to ‘fragile states’. Moreover, the significance of global and regional factors (e.g. climate change, transnational organised crime) and the recognition of pockets of fragility in generally stable countries have

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7 The workshop took place on 24 June 2014.
prompted international discussion to explore fragility beyond the categorisation of states (Graevingholt, 2012: 1). As a result, fragility has come to be understood less as a state typology, and more as a combination of conditions that together can prevent a political, economic and social system (at regional, state or community level) from coping with external or internal stresses in a non-violent manner (Putzel/Dijohn, 2012: ii). These conditions essentially involve weak or illegitimate state institutions that lack the ability or willingness to manage external or internal conflicts, making the outbreak of violence more likely (DFID, 2005; OECD, 2007). In this review, the term ‘fragility’ implies this combination of factors and, where appropriate, ‘fragility’ and ‘conflict’ are used interchangeably.

Socio-economic development is commonly defined as the relationship between economic activity and social welfare. It implies continuous improvement in people’s wellbeing and standard of living, including access to quality education, better healthcare, decent housing, safe drinking water and good sanitation, as well as equitable distribution of the nation’s wealth. In this review we focus on the latter, partly because of a need to limit the scope of this review but also because current policies increasingly recognise the significance of wealth distribution and economic development more broadly in conflict resolution and peacebuilding. The 2011 World Development Report (WDR, 2011) exemplifies this emphasis on economic opportunities and a shift away from a focus on basic services such as education and health.

**Report structure**

The report is structured in three parts, each addressing a set of specific research questions. Following this introduction, Chapter 2 discusses and compares a selection of Dutch and international policy documents and reports that have influenced and continue to influence current policy-making in the sphere of socio-economic development and peacebuilding. It concludes with an analytical framework that captures the more general trends. Chapter 3 elaborates on a number of key issues emerging from current debate around socio-economic development in fragile settings and which are likely to remain high on the policy agenda in the coming years. The report concludes by highlighting the major findings of this review.

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8 This is how NEPAD, the New Partnership for Africa’s Development defines socio-economic development (http://www.aprmzambia.org.zm/sd.html).
Review of policy documents on socio-economic development in fragile settings

The aim of this chapter is to identify the commonalities and differences in a selection of Dutch and international policies, and to discern general patterns and trends in how they relate socio-economic development to fragility and conflict.

Each policy is based on a certain understanding of the social problem it seeks to address, and it is this understanding that usually shapes the response outlined in the corresponding policy document – i.e. different definitions of a problem will lead to different solutions being proposed. Conversely, each policy-making body’s predefined responsibilities and mandates predetermine the way in which they look at complex realities and explain their preference for one analysis over another (Majchrzak, 1984).

This policy review illustrates this rule of thumb. A ministry’s economic department will approach the field of socio-economic development in fragile states differently than the department dealing with peacebuilding. Similarly, the World Bank’s (WB) analysis of the socio-economic dimension of conflict and peace will differ from that of the United Nations (UN). To understand those differences and discern potential overlapping trends, this policy review compares a small selection of policy documents by exploring:

1. each policy’s primary goal
2. how each policy deals with socio-economic development in fragile settings in its problem analysis and how it links socio-economic development to issues of fragility and conflict
3. how each policy’s suggested responses/recommendations use the link between socio-economic development and factors of stability and peace.

2.1 Dutch policies on socio-economic development in fragile settings

The theme of socio-economic development in contexts of fragility features in various Dutch policy documents addressing the topic from different angles and, to some extent, towards divergent primary objectives. This section offers a review of selected Dutch policy documents.
Dutch policy documents reviewed categorised by their primary objective

Primarily aimed at stabilisation

- Letter of 21 May 2012 from the Minister of European Affairs and International Cooperation and the Minister of Foreign Affairs to the House of Representatives on Security and the Rule of Law. Spearhead Policy on Security and the Rule of Law (S&RoL)  

Primarily aimed at sustainable economic growth

- Letter of 30 September 2013 from the Minister of International Trade and Development Cooperation to the House of Representatives on Entrepreneurship for Development: Investing in Sustainable and Inclusive Growth (EfD)  
- Letter of 4 November 2011 from the Minister of Economic Affairs, Agriculture and Innovation to the House of Representatives on Development through Sustainable Entrepreneurship (DtE)  
- Policy note of April 2013 A World to Gain: A New Agenda for Aid, Trade and Investment (WtG)

Overall policy goals

The policies reviewed aim either at stability and peace or at sustainable economic growth, depending on which ministry or government department produced them. While the Fragile States Strategy (2008) and Spearhead Policy on Security and the Rule of Law (2012) primarily seek to re-establish stability and human security in fragile environments,11 the policy letter on Entrepreneurship for Development: Investing in Sustainable and Inclusive Growth (2013), its predecessor the policy letter Development through Sustainable Entrepreneurship (2011), and the most recent policy document, A World to Gain (2013) are essentially aimed at promoting sustainable economic growth.12

The difference between these policies’ primary objectives reflects the distinct mandates of the institutional department responsible for producing them – i.e. the department for Stabilisation and Humanitarian Aid (DSH) and its predecessor the Fragility and Peacebuilding Unit (EFV), and the Department for Sustainable Economic Development (DDE) respectively.

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9 The author is aware, that despite applying a combination of criteria, the selection remains to some degree based on personal judgement. Depending on how much weight is given to a certain dimension of socio-economic development, other policy documents might have suggested themselves, e.g. the Letter to Parliament of the Spearhead Food Security or the earlier policy letter on Agriculture, Rural Development and Food Security.

10 The abbreviations for each policy document are provided in brackets and will be used for easy reference in this chapter only.

11 Fragile States Strategy: ‘In fragile states the challenge is to improve the security of the population under difficult circumstances. The ultimate aim (...) is to protect people from conflict, so that the rule of law functions properly, human rights are uphold and basic services are delivered’ (FSS, 2008: 8). Spearhead Security and the Rule of Law letter: ‘the Netherlands seeks to contribute to security and the rule of law in developing countries by tackling the underlying causes of conflicts, instability and exclusion and, from the viewpoint of human security, supporting positive forces in society’ (S&RoL, 2013: 5).

12 The major aims articulated in A world to Gain are ‘to eradicate extreme poverty in a single generation, sustainable, inclusive growth all over the world and success for Dutch companies abroad’ (WtG, 2013: 6). The policy letter Entrepreneurship for Development adopts these goals (EfD, 2013: 4) and fleshes out their policy implications.
The Fragile States Strategy, however, represents a compelling example of an integrated approach. Its focus and scope appear to have been largely defined by the complex needs of a fragile context, rather than pre-determined by a particular policy perspective (or 'spearhead'). Indeed, this policy is centred on a comprehensive approach to the particular difficulties encountered in fragile settings, which require both stability and economic growth. While the other policies' focus on spearheads or specific policy themes might help the Netherlands' government to yield greater leverage and visibility, such pre-categorisation of policies risks undermining the complexity of the challenges at stake.

Comparing the titles of the two recent policy letters sent to Parliament on the subject of economic development, the primary goal appears to have shifted from development to entrepreneurship. Whereas the 2011 letter is entitled Development through Sustainable Entrepreneurship, the reversed order of words (and the removal of the adjective 'sustainable') in the 2013 letter, Entrepreneurship for Development, seems to mirror a new prioritisation which reflects the different role each of the documents gives to Dutch companies. In the 2011 policy, cooperation with Dutch companies is presented as a means to promote local economic growth more effectively.13 In the 2013 policies (Entrepreneurship for Development and A World to Gain), the promotion of Dutch companies, including in fragile settings, is no longer simply a means but one of the overarching objectives.14

These differing goals and viewpoints help to explain the different ways in which the policies define the link between socio-economic development and fragility, both in their problem analysis and in their policy response.

Problem analysis: Linking socio-economic development to conflict and fragility
In general, comparison of policies developed under the distinct 'stabilisation' and 'sustainable economic development' departments leads to the conclusion that they approach the relation between development and fragility differently.

In the economic growth-oriented policy documents, conflict and fragility are repeatedly presented as a threat to both local economic development and international trade (WtG, 2013: 4 and 17, EfD, 2013: 5). Various dimensions of socio-economic fragility are specified. Most of these can be summarised as a lack of capacity: deficient economic governance, lack of financial infrastructure, extremely low skills among the labour force, and unclear land rights (EfD, 2013: 5).

Commonly, definitions of state fragility involve a combination of both a government’s incapacity and unwillingness to create favourable conditions for development to all its citizens (OECD/DAC, 2007; DFID, 2005). Interestingly, however, the Entrepreneurship for Development letter describes issues of unequal distribution as governments’ ‘incapacity’15 to distribute evenly the wealth their countries are able to create. Governments’ possible unwillingness to provide services or distribute wealth is not part of the analysis.

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13 Development through Sustainable Entrepreneurship: ‘The policy in particular targets small entrepreneurs and farmers who do not automatically have access to land, financial services, knowledge and markets. In context, partnerships with the (Dutch) private sector are increasingly forged (…) because they dispose of knowledge and skills for solutions (…) for problems in developing countries’ (DtE, 2011: 1-2, translated by the author).

14 See footnote 12 for respective quotes.

15 ‘Furthermore, low income countries and fragile states often are unable to distribute the profit earned with trade and investment in an equitable fashion.’ (EfD, 2013: 5, translated by the author).
The two policy letters, *Development through Sustainable Entrepreneurship* and *Entrepreneurship for Development*, stress that instability prevents firms from investing (EfD, 2013: 4) and hence from benefiting local populations. However, whereas the 2011 policy focuses primarily on local economies and local entrepreneurs, including the informal sector, the 2013 policies have a much stronger focus on the Dutch economy, presenting fragile settings as a threat as much to international and Dutch economic interests as to local economic development: fragility obstructs regional and global integration, for instance by disrupting global value chains and thereby negatively affecting local and Dutch prosperity (EfD, 2013: 5).

Indeed, in the 2013 economic policies, international trade and investment are entrusted with the potential to produce sustainable and inclusive growth. Apart from fragility, no other obstacle (arising, for example, from exclusive access to markets, rent-seeking monopolies or exploitative labour practices) that might prevent this growth from benefiting local populations more broadly is mentioned. In simplified terms, the logic of the argument is: Conflict leads to economic stagnation, which in turn leads to poverty and international security threats. In other words, the problem analysis looks primarily at socio-economic consequences of instability and conflict and only marginally at potential socio-economic causes of fragility and conflict.

The *Fragile States Strategy* offers a more detailed problem analysis, referring to the multiple political, economic, ethnic, cultural and political causes of conflict and drawing a more nuanced picture of the various socio-economic factors of fragility, including unemployment, the unequal distribution of wealth, and competition over natural resources (FSS, 2008: 5). Similarly, the *Security and the Role of Law* policy letter identifies ‘high levels of unemployment and unequal opportunities’ as potential sources of conflict, alongside illicit forms of economic activities (S&RoL, 2012: 5 and 17).

Comparing these two policies, the 2008 strategy pays greater attention in its problem analysis to the potential harm that interventions aiming at stabilisation or economic growth can do by benefiting only one part of the population (e.g. ex-combatants) and neglecting others. More generally, the policy acknowledges the inherently political nature of economic development by concluding that: ‘not everyone will benefit from the creation of new economic opportunities’ (FSS, 2008: 17).

Both documents also refer to the constraints that fragility poses to economic activities, particularly to the international private sector. In fact, a strong point is made in all of the documents reviewed about the threat that fragile states pose to the Netherlands, not only by affecting its own security through cross-border terrorism, refugee flows and international crime, but also by disrupting Dutch investments in and export of raw materials from those places (FSS, 2008: 8). Linking the security concerns of people in fragile states to financial return losses in high-income countries may appear inappropriate. However, the motivation to establish this link needs to be understood against the backdrop of shrinking development budgets and the international financial crisis, when donor governments, including the Netherlands’, have increasingly come under pressure to justify the benefits of development cooperation.

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16 See (DtE, 2011: 11): ‘The policy in particular targets small entrepreneurs and farmers who do not automatically have access to land, financial services, knowledge and markets.’ Policy response: ‘In those (fragile) states the focus will be in particular on small, informal enterprises, because larger formal companies hardly exist.’ (DtE, 2011: 4, translated by the author).
Overall, whereas the growth-oriented policies prioritise the daunting socio-economic consequences of conflict in their description of the problem, the stability-focused policies appear to pay more attention to the socio-economic causes and triggers of conflict, without, however, neglecting the negative impact that conflict and fragility can have on a fragile state’s economy as a whole.

**Policy response: socio-economic development, stability and peace**

Whether primarily aimed at stability or economic growth, in one way or another all the Dutch policy documents under review establish a link between socio-economic development and stability and peace. As expected, each of these policy responses mirrors its own understanding of the previously established correlation between socio-economic development and conflict. Overall three different types of policy response can be distinguished:

1. Public-driven socio-economic development policies aim to generate quick, visible outcomes (‘peace dividend’) and are targeted at vulnerable groups (e.g. ex-combatants) and at the local level (e.g. the rebuilding of community infrastructure and public works schemes). A major challenge remains the sustainability of the results achieved through those strategies that generally pay less attention to the creation of functioning institutions and an enabling environment. This type of socio-economic development features prominently in the *Security and the Rule of Law* policy and the *Fragile States Strategy*.

2. Market-driven local socio-economic development policies aim to generate market-led sustainable growth. They are targeted simultaneously at local, institutional and policy levels by promoting small and medium enterprises, building the capacities of key market institutions and creating an enabling business environment. Here the challenge is adapt those policies to the peculiarities of fragile settings, an effort thus far only undertaken by the *Fragile States Strategy*. The economic growth oriented policies, in turn, fully embrace this policy option, but remain silent on how to target fragility.

3. Socio-economic development through external actors aims to spur economic prosperity for international and local entrepreneurs alike, for example through the support of Dutch companies doing responsible business in fragile states. What remains less clear, however, in this enthusiasm to make the combined trade, investment and development agenda work in fragile settings, is how Dutch investment and trade will contribute to greater stability and development: by pointing out that investments in those countries will make a relatively significant contribution to development (EfD, 2013: 19 ff.), the link between investment, fragility and peaceful development is presumed rather than explained.
Two conclusions can be drawn from the comparative analysis of Dutch policies: First, the Fragile States Strategy is the only policy that embraces all three types of policy response. The more recent spearhead letter on Security and the Rule of Law and the economic growth-oriented policies offer narrower policy responses that contain only one or two of the three types of policy response: The Security and the Rule of Law policy exclusively concentrates its socio-economic development efforts on the creation of a peace dividend and thereby falls short of addressing the urgent need to link temporary solutions to sustainable economic development. The economic growth-oriented policies, in turn, largely neglect the specific requirements of vulnerable groups and the need for quick and visible results.

Second, among the economic growth-oriented policies, the role of external economic actors has gained some strength at the expense of local market development. The following section aims to demonstrate how these developments can be understood against the backdrop of international policy trends.

### 2.2 International policies on socio-economic development in fragile settings

To place the discussion of Dutch policy in perspective, this section looks at three prominent strands of international policy-making:

- the influential 2009 UN Policy for Post-Conflict Employment Creation, Income Generation and Reintegration
- the 2013 United Nations Development Programme (UNDP) Livelihoods and Economic Recovery in Crisis Situations

Although the Fragile States Strategy should still be understood as the foundation of the more recent and less comprehensive spearhead letter on Security and the Rule of Law, interviews with policy-makers of the respective department suggest that current policy-making is geared towards a much narrower understanding of socio-economic development, essentially promoted as the provision of a peace dividend. This entails quick and tangible, but largely temporary, economic opportunities and the lack of longer-term economic prospects.
• the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC)’s International Network on Conflict and Fragility (INCAF) along with the International Dialogue on Peacebuilding and Statebuilding

UN Policies

UN policy documents reviewed


Overall policy goals
In post-conflict settings, the UN is responsible for coordinating humanitarian assistance, with UNDP taking the lead on early recovery (UN, 2006: 15 ff.). Although socio-economic development has always been part of early recovery, the UN approach used to ‘tacitly emphasise immediate stability over sustainable peace’ (ibid.) whereby symptoms rather than root causes were primarily addressed. However, this is changing.

The UN Policy for Post-Conflict Employment Creation, Income Generation and Reintegration, published in 2009, provides a common framework for UN actors working on topics linked to employment or reintegration in post-conflict countries with the overall objective to improve effectiveness of employment support provided in those environments. The UNDP drew on this policy to develop its own 2013 guide, the Livelihoods and Economic Recovery in Crisis Situations.

Problem analysis: understanding the link between socio-economic development and fragility
Most of the following observations apply to both policy documents, unless otherwise stated, as both share the same understanding of socio-economic development in fragile situations and this common understanding forms the basis for both their support strategies (UNDP 2013: 8).

Although the 2009 UN policy pays specific attention to groups such as former combatants, youth and returnees, and is commonly referred to as the ‘UN Post-Conflict Employment Policy’, its thematic focus is much broader. It defines reintegration as a long-term, continuous socio-economic process that enables communities to return to civilian life under improved material and social conditions, which ultimately contributes to building sustainable peace (UN, 2009: 50). Employment creation and income generation are presented as critical building blocks in the reintegration process.

It is worth noting that, compared to previous UN publications on reintegration in conflict-affected situations, mostly as part of disarmament, demobilisation and reintegration (DDR) policies, the 2009 policy emphasises that successful socio-economic reintegration of conflict-affected groups does not only depend on their technical and business skills or their willing-
ness to acquire a civilian status. It also hinges on the receptiveness of host communities, the target group’s own expectations and aspirations, and market demands. Policies that exclusively benefit certain groups are likely to fuel resentment and thereby undermine the readiness of communities to welcome former combatants and other returning displaced persons (UN, 2009: 47; UNDP, 2013: 114). The significance of understanding expectations and perceptions of host communities and other groups is a key element of the policy’s problem analysis, drawn from the assessments of previous DDR policy strategies.

Similarly, the UN recognises that, at least in part, the limited success of reintegration programmes to date is due to a weak and static understanding of actual and quickly changing market demands (UN, 2009: 10; UNDP, 2013: 114). Interestingly, here the policies do not restrict their analysis to the economic dimension of labour markets – the supply side (availability of relevant skills) and the demand side (self- and wage-employment opportunities) – but also stress the importance of the target groups’ own aspirations with regard to the type of occupation that would be acceptable to them (UNDP, 2013: 118).

**Policy response**

Overall, UN policy outlines a concurrent three-track approach to the challenges of socio-economic development in conflict-affected settings, with intervention strategies prioritised according to stages of recovery:

1. Stabilisation
2. Medium-term local economic recovery
3. Long-term, sustainable employment and growth.

*Figure 2: UN three-track approach, United Nations Policy for Post-Conflict Employment Creation, Income Generation and Reintegration (2009)*
The broad definition of reintegration therefore calls for a comprehensive approach in which the economic dimension of employment and income generation is systematically embedded in the social context. For instance, in order to contain resentments among host communities and meet expectations of target groups, the policy aims to strike a balance between meeting the immediate needs of particularly vulnerable groups, while at the same time taking account of the expectations and aspirations of the rest of the population. Incrementally, the focus should be broadened from crisis-affected groups (track A) to local communities (track B). At the same time, to respond to the challenge of meeting growing expectations, the policy stresses the necessity to link quick and visible employment opportunities (for instance through public works schemes) or skills training to longer-term economic opportunities (track C).

To achieve this link more effectively, and in response to the recognised need to match skills training to market demands, the policy strongly recommends greater awareness of local markets. This entails anchoring socio-economic support strategies in rigorous and continual market assessments, but also engaging local suppliers of goods and services wherever possible. In the end, greater awareness and use of local market dynamics will promote employment through skills training, community development or policy reforms and is therefore a more effective means of socio-economic reintegration.

**Organisation for Economic Cooperation and Development and the International Dialogue on Peacebuilding and Statebuilding**

<table>
<thead>
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<th>Policy documents reviewed</th>
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<tr>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>• Preventing Conflict and Building Peace: A Manual of Issues and Entry Points (2005)</td>
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<td>• Principles for Good International Engagement in Fragile States and Situations (2007)</td>
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<td>• International Engagement in Fragile States: Can’t We Do Better? (2011)</td>
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<td>• Fragile States 2014: Domestic Revenue Mobilisation in Fragile States (2014)</td>
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<td>International Dialogue on Peacebuilding and Statebuilding</td>
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<tr>
<td>• New Deal for Engagement in Fragile States (2011)</td>
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<tr>
<td>• Busan Partnership for Effective Development Co-operation, Forth High Level Forum on Aid Effectiveness (2011)</td>
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**Overall policy goals**
The Organisation for Economic Cooperation and Development (OECD)’s Development Assistance Committee (DAC) focuses on aid coherence, helping member governments and others to cooperate and coordinate on primarily socio-economic issues. Although its mandate is oriented towards socio-economic development, it also plays a recognised role in influencing policy debates on conflict and fragility through its International Network on Conflict and Fragility (INCAF).

In subsequent publications, i.e. the *Principles for Good International Engagement in Fragile States and Situations* (2007) and the more recent *International Engagement in Fragile States: Can’t We Do Better?* (2011) report, the distinctive nature of economic development in fragile settings is underlined. Challenges for post-conflict growth are also noted, such as enabling environments for strong economic performance, employment creation, and conflict minerals.

Subsequent to the Third High Level Forum on Aid Effectiveness in Accra 2008, donors and partner countries initiated an International Dialogue on Peacebuilding and Statebuilding that is supported by the INCAF Secretariat. The aim is to facilitate exchange on critical topics related to peacebuilding and statebuilding between partner governments, development partners and civil society to increase the coherence, focus and impact of their development assistance.\(^\text{18}\)

**Problem analysis: understanding fragility and exploring its economic dimensions**

INCAF has played and still aims to perform the role of trendsetter in advancing the international community’s understanding and approach to fragile settings. First, the Network has been critical in developing a deeper and more nuanced understanding of fragility. In response to the changed nature of present conflicts, the notion of ‘post-conflict’ was replaced with ‘fragile and conflict-affected situations’. And although donors and their development partners continue to use their own definitions and although distinct lists of fragile states coexist, INCAF’s work has been instrumental in forging a number of common characteristics of fragility that are now widely shared. One of them relates to the lack of capacity or willingness of a government to provide its citizens with basic services: ‘States are fragile when characterised by structures with a lack of political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations’ (OECD/DAC, 2007).\(^\text{19}\)

Apart from shaping the international community’s understanding of fragility more generally, the OECD has advanced our knowledge on the economic dimension of conflict. Topics such as diaspora remittances and domestic tax revenue have been brought to the fore of international discussion on conflict and peace. Analysis of the link between these financial inflows, and their impact on development and fragility, includes both the potential positive and negative effects. On the one hand, while remittances make up the largest financial inflow in fragile states and therefore bear great potential to improve ‘health and education, nutrition and poverty, productive investment, socio-economic equality, women’s empowerment, and even climate change mitigation’, ‘in some cases, remittances have also played a role in fuelling conflict’ (OECD/DAC, 2013: 73).


\(^{19}\) DFID uses a similar definition also focused on service entitlement failures, see DFID (2005).
Tax revenues on the other hand can do good or harm depending on the nature and diversity of their economic base, as revenues from natural resources (often through a handful of multinational oil and gas companies) tend to dampen fragile state governments' incentives to invest in diversifying the economy, encourage engaged citizenship and uphold a strong social contract, all critical ingredients of broad-based socio-economic development and stability (OECD/DAC, 2013: 75).

Policy responses
In terms of policy responses, INCAF has been particularly influential in calling for a more integrated approach to fragile situations, recognising the links between security, political, and socio-economic development objectives. In its *Principles for Good International Engagement in Fragile States and Situations*, the network calls, among others, for greater awareness of the interconnectedness of these areas, while at the same time pointing to the trade-offs that are likely to emerge between those sometimes competing objectives (OECD/DAC, 2007: 4).

The Network has also stressed and explored the significance of economic development as an integral part of state- and peacebuilding. References to ‘foundations for inclusive economic development’, ‘sustainable livelihoods’, ‘employment’ and ‘effective management of natural resources’ in the Peacebuilding and Statebuilding Goals (PSGs) of the Dili International Dialogue (2010), were further entrenched in the refined Peacebuilding and Statebuilding Goal on ‘Economic Foundations – Generate employment and improve livelihoods’ in the *New Deal for Engagement in Fragile States* at Busan in 2011.20

The New Deal marked a turning point in international policy-making on fragility, with 18 fragile state governments taking the lead in defining a new integrated and conflict-sensitive approach to socio-economic development. Building on the Fragile States Principles of 2007, discussion leading to the New Deal added at least two additional accents to the way socio-economic development is dealt with:

1. In preparation of the New Deal, the Dili Consensus puts statebuilding and peacebuilding at the heart of any development intervention and calls upon development partners to align their support to country-led state- and peacebuilding processes. Identified as one of the major obstacles to those processes, ‘insufficient attention to economic growth and job creation, particularly for youth’, is addressed by identifying ‘foundations for inclusive economic development, including sustainable livelihoods, employment and effective management of natural resources’ as one of the stepping stones to achieve progress on development.21

2. In the Busan Partnership Agreement, signed one year later at the Fourth High Level Forum on Aid Effectiveness in Busan, the business sector is given a fundamental role ‘in the design and implementation of development policies and strategies’, with the ambition to advance both ‘development and business outcomes so that they are mutually reinforcing’.22 Businesses are entrusted with the potential to advance development, be it...

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20 www.g7plus.org/new-deal-document
21 The full text of the Dili Consensus can be found at: http://www.g7plus.org/news-feed/2013/3/1/the-dili-consensus-is-presented-and-endorsed-at-the-dili-int.html
as an innovative source of finance or as an engine of sustainable economic growth or as the main provider of long-term employment.

The World Bank’s World Development Report on Conflict, Security, and Development

Policy documents reviewed

Overall policy goal
The World Bank Group (WBG) is primarily an economically driven actor, with a mandate limited to economic development and poverty reduction ‘by providing technical and financial support,’ which shapes the design and parameters of its policies and interventions. In much the same way, this mandate shapes its engagement on conflict and fragility. As fragile states experience particular difficulties in meeting the Millennium Development Goals (MDGs) and with violence identified as one of the major constraints to overcome this backlog (WB, 2011a: 62), addressing issues of fragility and conflict in an effort to unleash economic growth and poverty reduction has moved centre stage within the World Bank Group’s policy space.

Problem analysis
The framework of the 2011 World Development Report on Conflict, Security, and Development (WDR) draws largely on the work of the economist Paul Collier

For instance, building on Collier’s argument of a ‘conflict trap’ referring to those places where poverty fuels conflict and, in turn, conflict sustains and aggravates poverty (Collier, 2003), the WDR states that while there is a strong relationship between income inequality and criminal violence (measured by homicide rates), no statistically significant correlation could be established between income inequality and civil war (WB, 2011a: 79). In other words, whereas there is a direct link between income inequality and homicide, the way in which income inequality may contribute to political violence is less clear and depends on other factors.

The report further elaborates on the economic root causes and escalating factors of conflict and refers to studies demonstrating that the occurrence of ‘lootable’ natural resources (e.g. timber, alluvial diamonds or coltan) and the presence of a large diaspora both correlate to the prolongation of conflicts or conflict renewal (WB, 2011a: 54, 75; Collier/Hoeffler, 2001). Similarly, the intensity of illicit trafficking and its link to bribery of government officials is highlighted as another factor that can increase the propensity of violence (WB, 2011: 56).

However, aside from drawing on the statistical analysis of the relationship between economic factors and conflict, the report explores other theories of violence with greater emphasis on the political and social factors. For instance, reference is made to recent research by Francis Stewart (2010) on horizontal inequalities, linking inequalities between different (ethnic, regional, political or religious) identity groups to the likelihood of conflict. In those cases, according to the report, poverty reduction and inclusive economic growth may fall short of addressing the political grievances and ambitions of certain groups (WB, 2011a: 75, 79).

Another influential highlight of the report in exploring the link between socio-economic development, fragility and conflict relates to the role of unemployment in triggering violence. Overall, the WDR confirms the opportunity cost theory, arguing that unemployment can lead to involvement in violence. A series of perception reviews (commissioned in preparation of the WDR) explored the motivations for young people to join rebel groups or gangs and came to the conclusion that unemployment/idleness are the major motivations cited by young people for becoming rebels or gang members (WB, 2011a: 80).

However, critical research towards this simplistic understanding of the correlation is also, briefly, discussed in the report and one of the insights stresses the role of social cohesion. Employment that does not offer non-material socio-economic benefits, such as social respect, status, a social network and a sense of belonging, is unlikely to prevent people's involvement in violence. Such employment may actually become a motive for rebellion (WB, 2011a: 79).

As well as the strong influence of econometric research on the WDR’s analysis of the causes of conflict, another important strand of thinking, institutional economics, provides the basis for the report’s analysis of state fragility (WB, 2011a: 105). While non-fragile states or regions may be able to absorb internal (e.g. inequality) and external (e.g. illicit trafficking) stresses peacefully, fragile systems with weak institutions are much more likely to experience violence. Hence, the main argument is that institutions and good governance are particularly important in low-income countries in preventing violence and conflict (a theme elaborated on in some depth in section 2.3). The argument further states that weak institutional capacity and the lack of confidence and political support are mutually reinforcing (WB, 2011a: 247). This vicious circle of weak institutional capacity and a lack of confidence lies at the core of the report’s analysis of the major challenge to socio-economic development in fragile settings.

**Policy response: from technocratic institution-building to working with inclusive-enough coalitions**

When it comes to policy recommendations, the 2011 WDR lists a vast number of entry points, good practices and engagement principles – too many to summarise here. Instead, the following section presents a selection of highlights that the report itself or the Bank’s operationalisation strategy portrays as a new approach to violence prevention and recovery in fragile situations.

First, with much more vigour than in previous reports, the 2011 WDR stresses the need to anchor cooperation policies in a thorough understanding of the local political and economic contexts, instead of attempting a one-size-fits all strategy (WB 2011a: 168). What may appear

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25 Interestingly, survey results in Mali and the West Bank clearly contrasted from the overall findings with revenge, injustice and belief in a cause ranking much higher than unemployment and idleness as motivations for participating in violence (WB, 2011a: 83).
to be a statement of the obvious will actually require a systematic rethink of the Bank’s approach thus far. As the Bank’s operationalisation strategy acknowledges: Context analyses will have to look beyond the technical constraints, and capture – in a continual effort – the socio-political stresses that can cause conflict and violence (WB, 2011b: 8). Considering that the Bank’s mandate forbids its involvement in domestic political affairs, it remains to be seen how this recognised need for a more political approach will translate into actual practice. More specifically, by recognising the significance of income inequality between geographical areas and among ethnic or religious groups, and of political exclusion as risk factors of violence (WB, 2011a: 73, 79), the World Bank pays much more attention to political dimensions of economic factors of conflict. In response, the report stresses the need for interventions to address political, economic or social inclusion (WB, 2011a: 249), not just poverty reduction and economic growth.

Another rather novel dimension of the new approach to fragile situations proposed by the 2011 WDR derives directly from recognising the political dynamics of the context and is summarised in the following quote: ‘Most economic reforms create real or perceived winners and losers.’ (WB, 2011a: 168) The report concludes, therefore, that it is critical to anticipate the distributive aspects of growth, again a consideration that has not been part of the Bank’s conventional thinking (WB, 2011b: 8). The Bank’s acknowledgement of the constant risk of ‘making existing differences more permanent and salient’ (WB, 2011a: 168) and thereby exacerbating conflict demonstrates its growing awareness of the need for conflict-sensitivity in economic development strategies.

A third aspect emerging from the report as a necessary innovation for more effective approaches to fragility appears as a logical consequence from the two previous points. It consists of a shift away from technocratic institution building to an approach of ‘restoring confidence and building institutions that is adapted to the local political context’ (WB, 2011b: 1). In this context, the report calls for greater readiness on the part of the development community to work with inclusive-enough coalitions and to seek ways to engage and broaden elite pacts, as these may otherwise obstruct reform (WB, 2011a: 248). Implications of this considerably more political engagement are further discussed in Chapter 3.

In addition to the above three elements, which appear to characterise the new way of engagement, the report also declares job creation one of the three key priorities areas, along with security and justice. This primacy of employment promotion over for instance basic service provision (the theme of the 2004 WDR) is primarily discussed as market-led employment, as it is the private sector as opposed to the public sector that secures jobs in the long run (WB, 2011a: 200). Hence, recommended policy responses revolve around efforts that are likely to ease constraints on private sector activity, e.g. business environment reform and access to markets.

### 2.3 Converging trends

As the above review of Dutch and international policies has shown, the theme of socio-economic development in fragile settings was found to be tackled in two sets of policy
documents: those aimed primarily at stabilisation and peace and those seeking to promote economic growth in development contexts, including those deemed fragile. In comparing the way these policies have come to define the link between socio-economic development and fragility and reviewing their various policy responses, some general trends emerge (see Figure 3).

**Figure 3: The Peacebuilding (PB) - Economic Development (ED) Spectrum Framework (Hoffmann/Beswick, 2013: 13)**

<table>
<thead>
<tr>
<th>Stabilisation policies</th>
<th>Economic growth-oriented policies</th>
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<tr>
<td>Growing recognition of economic factors of conflict</td>
<td>Becoming market sensitive</td>
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<tr>
<td>Systematically utilising ED as a tool for PB</td>
<td>Explicitly adopting PB as (one of) its goals</td>
</tr>
<tr>
<td>Becoming conflict sensitive</td>
<td>Growing recognition of the political nature of ED</td>
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The two ends of the spectrum represent, on the one hand, traditional stabilisation or peacebuilding approaches and, on the other hand, traditional economic growth-oriented policies. Both feature elements of socio-economic development in fragile settings. While the former tended to largely neglect the economic dimension of fragility and conflict, the latter essen-
tially considered its policy response as a technical, apolitical measure, designed and implemented in isolation of the political complexity at stake. This has started to change, from both ends of the policy spectrum.

### Economic development and the private sector’s role in stabilisation policies
While the UN generally subscribes to the assumption that ‘there is no post-conflict recovery without socio-economic recovery’ (ILO, 2011: 197), the way in which socio-economic development is conceived and applied in policies for fragile and conflict-affected settings is presently undergoing some change.

The general trend in policies that are primarily aimed at stabilisation and peacebuilding can be captured in the overall attempt to mainstream greater awareness of the economic dimension of development and peace. Although implemented at a different pace and intensity within the various organisations and policy bodies, this trend involves the following incremental stages.

First, development practice and a growing body of research increasingly point to the economic causes and effects of fragility and conflict. Thus far, respective policies have centred on the most basic needs and security requirements and sought to address those through aid structures and the public sector. However, current policies are calling for a better understanding of the local economy/market and private sector actors. This call reflects the growing awareness of the economic drivers of conflict (OECD/DAC, 2013: 73; NLMFA, 2008: 5; NLMFA, 2012: 5 and 17), but also stems from the recognition that without a functioning market, no achievement in socio-economic development can be sustained in the long run (UN, 2009: 50; ILO, 2011: 185).

Second, this growing awareness of the significance of local markets in stabilisation efforts is further translated into a call for caution with regard to potential market distortion. This is a crucial step towards greater market awareness, as past experience has shown that peacebuilding efforts, however well intended – with their massive scale of operations and a focus on results that can be achieved in the short run (e.g. basic stability, quick visible peace dividends) – can seriously undermine already weak market structures if their employment and procurement policies are not grounded in a thorough understanding of the local market and a systematic attempt to use locally produced goods and services: ‘care must be taken to avoid negative spillovers (of stabilisation success) on the local economy, in particular through transmission mechanisms that affect prices, wages and the efficient production and supply of goods and services’ (UN, 2009: 15). UNDP explores possibilities to incorporate market sensitivity through economic recovery programming (UNDP, 2013: 35, 38, 56, 72).

Third, the thorough understanding of the economic context that is required to minimise potentially harmful effects on the local economy can then be used to actually strengthen and build on what is already there in terms of economic activity. Indeed, conventional beliefs in sequencing, arguing that minimum security needs to be established before socio-economic support efforts can take off, have been challenged. The following quote illustrates the para-

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26 The spearhead letter Security and the Rule of Law offers an example of such thinking by asserting: ‘the private sector will not invest until legal
digam shift from a peacebuilding perspective: ‘Employment creation and income generation should be mainstreamed and programmed from the beginning of the recovery process’ (UNDP, 2013: 19). In the 2009 UN Policy, employment and self-employment are explicitly introduced as essential peacebuilding tools (UN, 2009: 15).

Fourth, exploring the implications of the significance of local market and economic activities for stabilisation and peacebuilding efforts still further, the private sector is increasingly recognised as a key partner in peacebuilding. The UN Policy defines local businesses as part of the conflict-affected society that policies should assist to recover. With an almost exclusive focus on local market players, the policy conceives a weak private sector as an object of concern that is to be addressed. The Global Facility states that ‘… earlier and more direct support should be given to the private sector’ (GF, 2012: 6). In a similar tone, the Busan Partnership agreement acknowledges the private sector as a key partner, not only in implementing development policies, but also in their design (ID, 2011: 10).

**Peacebuilding in economic growth-oriented policies**

From the other end of the spectrum, economic growth-oriented policies over the past ten years have started to adopt a new approach when it comes to environments of fragility and conflict. The distinct patterns of this new approach feature in various documents, although with varying intensity. Overall this trend can be described as a growing commitment to mainstreaming conflict-sensitivity into economic growth policies, when applied to fragile and conflict-affected contexts. Similar to the trend discerned in peacebuilding, this process can be understood in various consecutive degrees.

First, there is growing recognition that understanding the technical constraints to socioeconomic development in fragile situations is not sufficient to ensure the effectiveness of interventions. However, thus far problem definition in economic growth-oriented policies in fragile environments has largely focused on the influence of income poverty and economic stagnation on instability. Countries caught in the so-called ‘poverty-conflict trap’ are found to have a 44 per cent chance of returning to conflict within the following ten years (Collier et al., 2003: 83). However, research over the past decade has demonstrated how economic grievance and commercial agendas intertwine with social and political motivations to drive conflict or make peace fragile. The 2011 WDR has played a critical role in promoting this wisdom on the confluence of economic and political fragility factors by emphasising the role of political institutions – both formal and informal – including the power of elite pacts in driving increasingly recurrent conflict (WDR, 2011: 105).

To translate this renewed political awareness in economic growth-oriented thinking into practice, recent policies stress the need to design their intervention strategies on the basis of a thorough understanding of the political economy, i.e. the multiple interactions of political and economic interests and incentives that generally drive fragility (USAID, 2008: 8; WB, 2011b: 8; Bagwitz, 2009: 12; DCED, 2013: 9 ff.), also recognising that conventional econom-
ic diagnostic tools fail to capture these less technical, more political dimensions of contexts that are inherently prone to conflict.29

While there is some resistance to (openly) embark on the search to understand the political economy – due to both political and practical difficulties – this approach sheds a quite different light on the technical approach adopted thus far and the presumably apolitical nature of the policy body behind it (McCulloch, 2014).

In a second step, this political understanding of socio-economic development demands the translation of ‘do no harm’ into the domain of economic development. Developed in the humanitarian field, in reaction to the genocide in Rwanda and failures of humanitarian interventions, it took some time for this concept to travel across disciplines and to fully gain ground in the areas of economic development. In fact, economic development projects used to be conceived and implemented under the assumption that increased productivity and more jobs would in and of themselves benefit society as a whole.

It is only recently that the growing body of empirical research has succeeded in challenging that assumption by pointing to the risks linked to issues such as unequal access to and distribution of wealth which can easily be reinforced by economic policies if carried out in a ‘business as usual’ manner (Saperstein/Campbell, 2007: 7; Bagwitz, 2009: 11, WB, 2011a: 168). The World Bank, for example, after assessing the mixed results of its engagement in fragile situations, comes to the conclusion that not only is the risk of failure higher in those contexts, but the impact of failure can be much more catastrophic as it can ‘increase the short-term risk of instability’ and even ‘lead to the breakdown of the political compact’ (WB, 2011b: 4).30

Indeed, competition in places where a level playing field has been prevented by centuries of structural marginalisation is likely to reinforce inequalities and fuel grievances if adjustment measures, such as targeted supported to disadvantaged groups, are not undertaken. A ‘do-no-harm’ approach then requires policy-makers to anticipate the potential unintended negative consequences, both direct and indirect, and the strategies needed to minimise them. Such reflections have implications for the selection of intervention areas, target groups or contractors (Bagwitz, 2009: 80; WB, 2011a: 198) and challenge conventional commitment to monitoring and evaluation, as impact needs to be traced closely, with a long-term perspective and a strong focus on processes, quality and perception (DCED, 2013: 11 ff.).

The next step in the process of translating conflict sensitivity into economic growth-oriented policies goes beyond the necessity to do no harm and consists of the ambition to contribute positively to broader state and peacebuilding processes: from working in conflict to working on conflict. This primarily involves efforts to cushion the economic causes or triggers of conflict such as poverty, inequality, economic grievances, unfair unemployment practices, and under- or unemployment (Bagwitz, 2009: 12). As the 2011 WDR asserts, in situations where

29 For an analysis of these shortcomings, see Guglielmetti (2010). For recent efforts to understand the political economy analysis of business environment reform undertaken by the Donor Committee for Enterprise Development, see Davis, P. (2011).
30 In a literature review commissioned by USAID, Saperstein and Campbell refer to cases in which the presence of elites defined by ethnicity, kinship or religious affiliation, increases the chance of economic inequality being a driver of conflict. In those cases, witnessed in India, Mexico and China, the review comes to the conclusion that economic growth initiatives that have left out or marginalised distinct groups of the population have strengthened this conflict trigger (Saperstein/Campbell, 2007: 7).
internal divisions between ethnic, religious, or geographical groups are a cause of conflict, these need to be addressed (WB, 2011a: 249). Much in the same token, the German Federal Enterprise for International Cooperation (GIZ) asserts that working in conflict means that ‘the strategy and the objective (of sustainable economic development interventions) are (at least partly) a direct attempt to address conflict issues and therefore to contribute (directly or indirectly) to peacebuilding’ (Bagwitz, 2009: 12).

Currently, much debate revolves around the potential of economic development strategies to foster peace not only by mitigating economic conflict factors, but also by directly fostering the social and political underpinnings of peace. For example, improved economic activity in the formal sector is likely to extend the tax base, potentially enabling the government to provide better services to its citizens. This, in turn, can improve state legitimacy in the eyes of its constituencies and thereby foster state-society relations. Second, job creation, as emphasised in the 2011 WDR, not only provides fragile societies with much needed income, goods and services, but also generates the self-esteem, sense of optimism and social cohesion that is critical in rebuilding the social fabric. Various text passages in World Bank publications point to this broader peacebuilding potential of private sector development: ‘Indeed, the private sector plays a role not only in employment provision, but in governance and broader state-building’ (WB, 2011b: 24); or: ‘At the local level, involving communities and the private sector can improve the relations between the state and its citizens and thereby help prevent violence and conflict. (…) The private sector can support municipal governments and civil society in local crime and violence prevention initiatives in the pacified favelas’ (WB, 2011a: 152). Similarly, GIZ refers to the concept of ‘peace entrepreneur’ to explore the economic, political, security and reconciliation dimensions of local businesses (Bagwitz, 2009: 15).

However, while arguments linking private sector development to non-economic peacebuilding dimensions unfold, empirical evidence of this causal correlation remains scant. The working group on Private Sector Development in Conflict-Affected Environments of the Donor Committee for Enterprise Development seeks to encourage and coordinate efforts to gather such evidence by providing a framework of impact channels through which private sector development is expected to contribute to state- and peacebuilding processes.\textsuperscript{31}

\textsuperscript{31} For more information, see www.enterprise-development.org/page/cae.
Key issues in socio-economic development policies for fragile environments

Against the backdrop of policy trends described in the previous chapter, we now turn to three key issues that appear to be central in the current policy debate on socio-economic development in fragile settings. The topics were selected on the basis of the frequency and controversy with which they were raised by the policy-makers and experts interviewed for this review. The objective here is not to provide a comprehensive overview of current discussions. Rather, this chapter intends to illustrate how debate around those topics is shaped and can better be understood in the context of the above outlined policy trends.

3.1 Livelihoods, jobs and resilience

The notion of livelihoods deserves special attention in this review for at least two reasons. First, the concept easily embraces the wide array of policy fields covered by the notion of ‘socio-economic development’, the core theme of this policy review, and will therefore allow us to avoid too restricted a focus on private sector development, employment creation or economic development. Second, it constitutes a striking example of a theme that has been influential in some policies reviewed for this study and conspicuously neglected in others. This section will illustrate this biased uptake in policies and search for possible explanations. In sharp contrast with its role as a defining theme in the UN Post-Conflict Employment Policy and ensuing ILO and UNDP policy documents, the 2011 WDR remains largely silent on the livelihoods discourse. This is remarkable given the report’s focus on jobs and their role not only as a source of livelihood but as a source of ‘respect and status, involving social cohesion as well as economic opportunity’ (WB, 2011a: 6). This interconnectedness of financial, human, social (natural, physical and political) resources is precisely what the various capital assets of the livelihoods approach aim to illustrate in the so-called asset pentagon, which is at the heart of most livelihood frameworks (Mallett/Slater, 2012: 4).

Indeed, livelihoods in the context of fragility have been defined as comprising ‘the ways in which people access and mobilise resources that enable them to pursue goals necessary for their survival and longer-term wellbeing, and thereby reduce the vulnerability created and ex-

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32 By way of numeric comparison, the 300-page WDR uses the term ‘livelihood’ only ten times, of which three are references to the title of a survey or report, while the 40 page UN Policy uses the term 27 times.
acerbated by conflict’ (Young et al., 2002:11). Besides the difference in frequency with which the term is used in the WDR 2011 and the 2008 UN Policy, the way the notion of livelihoods appears in both documents differs in various regards.

Comparative analysis of the use of the livelihoods concept in the 2011 WDR and 2009 UN policy

A first qualitative difference consists in the narrow meaning with which the term livelihoods appears to be used in the WDR. Generally, it is safe to argue that the report uses the term primarily for its financial dimension referring to the ‘lack of alternative livelihood opportunities’ (p. 87, 151) drawing heavily on Collier’s major argument of unemployment forming an economic motive for young men to join a rebellion. Formulations such as the ‘lack of livelihoods’ (p. 132) or ‘former combatants’ difficulties in finding livelihoods’ (p. 61) also suggest a similar use of the term as a synonym for employment or income.33 The persistent neglect of the other livelihood dimensions (e.g. education, health), and hence the implicit failure to use a livelihood lens in defining the challenges of conflict and fragility (WB, 2011a: Part One), stands in clear contrast to the way the UN Policy accommodates the term in its broader sense, for instance by explicitly referring to ‘labour and other livelihoods (e.g. land, equipment, social capital and infrastructure)” (UN, 2009: 46). The following definition provided by the UN Policy of the key terms ‘Employment creation and income generation’ reveals its very different application of the concept:

‘The concepts of employment creation and income-generation are also sometimes used interchangeably with livelihoods. The latter, however, covers a combination of people’s resources (assets, capacities) and the activities they carry out to live. More specifically the resources include individual skills (human capital), land (natural capital), savings (financial capital), equipment (physical capital), as well as formal support groups and informal networks (social capital).’ (UN, 2009: 49)

A partial explanation for the WDR’s narrow use of livelihoods is offered by the WDR team when claiming that ‘the shift by donors to focus support on the MDGs has led many to dedicate significant parts of their development assistance to health, education, and basic services like water and sanitation’ at the expense of job creation (WB, 2011a: 200). Even if this statement, as Jones and Rodgers argue, is at odds with the work of many NGOs and the definition of MDG 1 aiming at ‘productive employment and decent work for all’ (Jones/Rodgers, 2011: 13), it appears to justify why those equally important dimensions of livelihood recovery are not a subject of the 2011 WDR report (see WDR 2004 on basic services).

Second, while the 2011 WDR uses livelihoods as an isolated term, the UN Policy reflects the fully-fledged livelihoods terminology in its analysis of challenges posed by conflict 34 and proposes to introduce the integrated livelihoods approach into needs assessment methodologies (UN, 2009: 28), an endeavour currently under implementation by UNDP in Yemen.35

33 Indeed, two interviewees reported from their own exchange with members of the 2011 WDR team that what was essentially meant by ‘jobs’ was ‘livelihoods’.
34 Other key concepts of the livelihoods approach, such as vulnerabilities, assets, resources and capitals, are mentioned alongside the central term.
35 Interview with UNDP/BCPR staff involved in such a countrywide assessment. As a preliminary finding the assessment suggests that several capital assets will have to be strengthened jointly in order to build a more resilient society. When discussing the findings of this livelihoods assessment at a workshop on employment in fragile settings in Washington in June 2014, it was stressed that the correlation between weak livelihoods and conflict was supported by sound evidence, whereas the link between unemployment and the inclination to engage in violence.
Lastly, when it comes to the proposed approaches and interventions, again the notion of livelihoods features prominently in the UN policy, while it becomes even scarcer in the WDR. Not a single reference to livelihoods is made in the report’s third section on practical options and recommendations. This omission may be the result of a number of practical considerations with regard to the difficulties that are inherently linked to the livelihoods concept.

**Limitations of the livelihoods concept**

On the one hand, since the livelihoods approach was originally designed for politically stable, primarily rural development contexts (Chambers and Conway, 1992), some inadequacies were revealed when applying it to situations of chronic conflict. As pointed out by Maxwell and Longley (2003), the livelihood framework has been criticised, first of all for treating vulnerability solely as an external factor rather than as a result of people’s own (competing) livelihoods. Secondly, power relations have tended to be under-emphasised by conventional livelihood approaches. Thirdly, the conventional livelihoods framework fails to incorporate adequately a temporal dimension (Longley/Maxwell, 2003: 17). As a consequence, Longley and Maxwell conclude that the conventional livelihoods framework (as developed for and used in politically stable contexts) needs to be expanded to incorporate the concept of vulnerability more centrally, to give greater attention to power relations, and to include a temporal dimension.

On the other hand, and maybe more importantly, it is its unit of analysis that may have disqualified the livelihoods framework from travelling with ease across different policy spheres. While its proved applicability at household and community level has secured the concept a prominent position within the first two tracks of the UN approach, its adaptation to the bigger systems, such as societies or even states, has proved problematic. Yet, the significance of the enabling environment, state-society relations and regional spillovers of conflict in understanding and overcoming fragility have gained growing recognition in recent thinking. If a better understanding of households’ vulnerabilities and capital assets can inform support strategies to help households reduce their vulnerability, survive and overcome, or even contain, crises, the livelihoods approach has little to offer when it comes to the viability of fragile states and their vulnerability in terms of weak institutions and a lack of legitimacy vis-à-vis their citizens.36

This limitation in terms of an inherent neglect of the structural causes of vulnerability, poverty and conflict was recognised as a major constraint by an interviewee working for a Dutch NGO. He stressed that their programmes used to experience the ‘S-curve’ of economic recovery: support strategies were effective in stabilising people’s livelihoods, but failed to take into account the broader picture, including those structural constraints in the economic environment that prevented people from growing beyond their existential needs to become resilient to crisis. As a consequence, their target beneficiaries would keep relapsing into poverty after a couple of years. Only once the organisation adopted a broader economic perspective, beyond the conventional household and community focus, did interventions achieve more sustainable results.

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36 Interview with an expert from an academic institute.
As one interviewee from an academic institute suggested, this is where the comparative advantage of the concept of resilience appears to lie. Propagated as the opposite to fragility, it can be applied to very different units of analysis. Depending on their ability to cope with internal and external stresses, households as well as institutions, states and whole regions, can be labelled as resilient. These higher levels of analysis have received growing attention in understanding conflict and fragility in the past decade, a process that has greatly benefited from the work of INCAF. With a growing focus on the role of institutions, states and regions in coping with, sustaining or containing conflict, the household and community levels that are at the core of the livelihoods approach may become less obvious candidates for future policy attention. However, a neglect of this micro-level analysis of fragility is, not desirable, as will be argued below.

A third limitation of the livelihoods approach that emerges as particularly relevant in the policy realm of socio-economic development in fragile environments relates to its inherent focus on vulnerabilities and coping mechanisms essentially aimed at reducing vulnerability. In short, securing livelihoods is about securing household wellbeing, not about accumulating wealth and promoting competitiveness among individual entrepreneurs. This implies different target groups. By primarily focusing on the most vulnerable population groups, the livelihoods approach has largely neglected entrepreneurs with potential to grow beyond mere subsistence. In contrast, these high-potential entrepreneurs are the engine of any growth-oriented development strategy, from which more vulnerable groups are expected to eventually benefit as well, albeit indirectly. As high-potential entrepreneurs are also gaining some popularity in stabilisation policies, livelihoods may look like an out-moded concept to some.

The two latter limitations provide an explanation for the fact that the UN Policy resorts to the concept of livelihoods only twice in its policy/programmatic outline for track C, which aims at ‘sustainable employment creation and decent work’ primarily through interventions at the macro level, with strong private sector involvement (whereas tracks A and B emphasise the local and community level, with particular attention to certain vulnerable groups).

Considering the added value of keeping livelihoods high on the policy agenda for fragile settings

Notwithstanding these limitations, this policy review suggests three reasons why the livelihoods approach should play an important role in future policies on socio-economic development in contexts of fragility. While two arguments derive from the comparative advantage of the concept itself, a third relates to a more practical consideration.

First, the past two decades of livelihoods research and application have gathered a lot of wisdom that will remain critical in understanding how people’s lives are being affected by factors of fragility and how their own coping strategies, as well as external support strategies, are successful in rebuilding and fostering resilience (Mallett/Slater, 2012: 75). The dearth of evidence regarding the impact of socio-economic interventions on fragility and conflict – which has not prevented policy-makers from entrusting employment promotion programmes with the ability to foster peace – would benefit from more systematic impact studies at household level: ‘In the end it is not about services, but about livelihoods’, as some of the interviewees stressed. In other words, whether strengthened institutions, improved government legitimacy and capacity, as well as economic growth and more jobs, will pay off can only be judged on the basis of their
broader impact on citizens’ wellbeing. The livelihoods approach offers a wealth of tools to monitor and evaluate such impact, on which the need for evidence is dire.

Second, current endeavours towards integrated approaches primarily revolve around the links between security, development and justice. This call for greater integration, as articulated in the 2011 WDR’s trinity of security justice and jobs, as well as by the fifth Fragile States Principle on the link between political, security and development objectives, appears to come with an increasingly narrow definition of development, in which the latter is presented with a bias towards economic development. This reduced understanding of development stems from a policy context that is increasingly characterised by shrinking aid budgets and the lasting effects of the recent financial crisis, which have led to increased efforts in identifying synergies between development and trade agendas.

The holistic livelihoods framework could, however, counterbalance that approach and remind policy-makers of the significance of the various dimensions of livelihoods that are to be addressed in order to build sustainable development. Development efforts primarily geared towards job creation may fail to address the various political, social, financial, physical, natural (and political) assets whose inter-relations are critical in creating the resilience the integrated approach seeks to promote. On this note, the conclusion drawn in the 2013 Department for Policy and Operations (IOB) evaluation Investing in Stability on Dutch development policies is revealing. The report asserts that the 2010 development policy by Minister Knapen represents a shift from supporting social development to supporting economic development, ‘from aid to investment’ (NLMFA, 2013c: 53). The more recent development of expanding the Dutch integrated approach from ‘3 D’ (diplomacy, defence and development), to ‘3 D plus E’ (economy), suggests that whatever the definition of ‘development’ used to be, it was not perceived as giving enough priority to economic development and the role of the corporate sector by the current government.

Third, on a more practical note, recent initiatives such as the New Deal and the Global Facility for Employment Creation in Fragile States offer a fertile ground for the livelihoods approach to gain traction from economic growth-oriented as well as stabilisation-focused policy efforts. The New Deal accommodates the livelihoods perspective by including it – alongside jobs and private sector development – in one of its fragility/resilience dimensions, the earlier mentioned Peacebuilding and Statebuilding Goal 4 on ‘Economic Foundations’.

Moreover, as a joint initiative of the World Bank Group, the African Development Bank and various UN agencies, including the ILO and UNDP, the Global Facility for Employment Creation in Fragile Situations, seems to be determined to anchor the livelihoods approach firmly in the current jobs-for-peace debate. Language and thematic foci in recent undertakings of this initiative suggest that the UN is in the lead in shaping this initiative, and that their prioritisation of the livelihoods approach will be influential in further developing the initiative.

39 Focusbrief Ontwikkeling (2011), TK 32 605, nr 2, 18 maart 2011, pp. 5-6. In this document development is said to encompass, for example, good governance, rule of law, job creation and basic services.
40 The following two internal documents illustrate this point: Draft Concept Note and Agenda Creating Jobs and Livelihoods in Fragile and Conflict-Affected Situations: What will it take?, June 18-19, 2014, Washington: Global Facility; and Employment Creation Fragile States Trust Fund, a project proposal submitted by the Global Facility to the European Commission for funding.
Previous cooperation between the WB and ILO on ‘Demand-driven Approaches to Livelihood Support in Post-War Contexts’ has laid the groundwork for ‘a common understanding and framework for collaboration among major stakeholders in support of livelihoods and empowerment in post-war contexts’ (ILO/WB 2006: 1).41

Although the livelihoods approach cannot capture broader systems of vulnerability (and resilience), it does provide all the tools and the experience to unravel and depict the impact that the broader environment – with its government policies, formal and informal institutions, and other actors such as development organisations or private investors – will have on people’s lives.

Livelihoods in other UN and bilateral policies
As interviews with experts from UNDP and ILO confirmed, the livelihoods approach continues to be a defining theme within the UN, even though its overall prominence in international development discourse has been less compelling in the field of fragility and conflict. Respective policy guides of both organisations (e.g. ILO 2010 and UNDP 2013) testify to this consistency in approach. As interviewees within ILO’s CRISIS group pointed out: ‘Instead of using the term ‘jobs’ like the World Bank, we focus on ‘employment’, which is more linked to securing livelihoods.’

Other bilateral donors, notably DFID as a core donor of the Secure Livelihoods Research Programme, still use the livelihoods terminology, but are increasingly influenced by the WB’s dominant jobs rhetoric.42

The question whether and to what extent the livelihoods concept is taken up in current development policies is not merely semantic. Answers elucidate the prioritisation policies give to a certain policy goal (stabilisation or economic growth), thematic foci (the broader dimension of development versus development as economic development or job creation) and the level of intervention (household or enabling (institutional) environment). Policies primarily aimed at stabilisation and human security continue to demonstrate strong commitment to the livelihoods approach, both in defining their unit of analysis and the objective of their socio-economic approach. On the other hand, policies whose primary aim is poverty eradication and growth appear to shift their direct responsiveness away from the local level to the institutional level. However, measuring the successes of the latter policies will still have to take account of household and community levels.

While most interviewees thought that the livelihoods approach was increasingly being neglected in current policies – and some felt for good reasons (see above), others saw the current shift away from basic services to private sector development and job creation as an opportunity for donors to place a greater focus on livelihood interventions.43 However, this will largely depend on whether private sector development will benefit first and foremost local entrepreneurs and their communities and not primarily, as some recent policies suggest, external economic actors – the topic of the next section.

42 Interview with the director of the Secure Livelihoods Research Programme.
43 Two interviewees quoted members of the 2011 WDR team as confirming that what were referred to as ‘jobs’ in the report essentially meant livelihoods.
3.2 Local entrepreneurs versus external economic actors

A UNDP report from 2008 explores the central message ‘that economic recovery is quicker and more sustainable when it supports and builds on indigenous drivers because local actors are the best placed and have the strongest long-term incentive to engage in activities conducive to sustained economic recovery.’ (UNDP, 2008: 89) In that report, local actors are primarily opposed to external aid/development agents from donor governments or their non-governmental development partners. No explicit reference is made to external private sector actors.

This is clearly changing in more recent policies. The steady increase in foreign direct investment, including from non-OECD countries such as China and India (OECD/DAC, 2010: 3), coupled with shrinking aid budgets and the ensuing combination of trade, investment and development agendas (e.g. NL MFA, 2013a), the role of external private sector actors is gaining growing attention from the international development community (Forrer, 2012: 2; Ha-meed/Mixon, 2013: 1). This general trend is reflected to distinct degrees in the international and Dutch policy documents reviewed for this paper.

This section starts by analysing the documents chosen for this review with respect to the role and priority they grant to local and foreign entrepreneurs investing or operating in fragile settings. By taking account of the development of this topic over time, the aim is to distil from that analysis those drivers and nuances that stand out or tend to be neglected and reflect upon potential implications. In particular, two questions were found to be tackled quite differently, with evolving priorities and nuances over time and across different policy documents. One relates to the role granted to local versus foreign entrepreneurs in fragile environments and the other deals with different approaches to the informal economy.

1. Local versus foreign entrepreneurs

Taking as a starting point the three key influential policy strands discussed in chapter one (respectively authored by the UN, the OECD/DAC and the ID, and the World Bank’s WDR 2011), the focus in these reviewed documents clearly lies on the local market, the domestic private sector and its entrepreneurs. They are the centre of attention in the problem analysis when economic implications of violent conflict or economic causes and triggers of fragility and crisis are being discussed. The 2009 UN Policy, 2011 WDR and the OECD INCAF paper of 2011 dedicate much emphasis to the recovery of local businesses and seek opportunities to strengthen the capacities of local suppliers. However, while the 2009 UN policy makes hardly any reference to foreign companies/investors, and restricts itself to a few remarks with regard to ‘equal treatment’ (UN, 2009: 35) or ‘national treatment’ (UN, 2009: 38) that should be accorded to both foreign and local companies, more recent policies have shifted greater attention to the presence of foreign companies in fragile states. Their arguments in favour of a stronger focus on these external economic players, as presented in the 2011 WDR, recent INCAF publications (OECD/DAC, 2013; OECD/DAC, 2014) or the recent IFC Jobs study (2013) draw on the following reasoning.

A stronger role of foreign entrepreneurs in contexts of fragility

First, in response to an increasingly globalised economy, and the growing presence of inter-
national businesses in fragile markets, policies look at foreign investors as beneficial to the local economy as providers of both access for emerging markets to international markets and better-quality jobs to local populations. Indeed, acknowledging the cost benefits of cheap labour and other locational advantages, international companies move stages of production to emerging markets, thereby offering the opportunity to the local economy to overcome their isolation from international trade (OECD/DAC, 2013: 70). More generally, the 2011 WDR stresses the value of foreign investors as key resources ‘to draw on’ for their potential to ‘create links with local entrepreneurs’ in the form of local procurement and local supply and distribution chains (WB, 2011a: 274; IFC, 2013: 144). By comparing the contributions in terms of job creation within different private sector categories, IFC’s Jobs Study (2013) further comes to the conclusion that foreign direct investment not only provides an opportunity to ‘augment scarce internal resources in terms of capital, skills, and technology’, but that workers in foreign-owned firms tend to enjoy higher wages and better working conditions and social protection than employees of domestic-owned firms (IFC, 2013: 49).

Second, in addition to the potential benefits for the local economy of fragile states, the INCAF report also highlights the tax potential particularly of the one-in-four fragile states endowed with abundant natural resources, a potential that thus far has been largely untapped. Reforms in tax policy and administration are hoped to help unleash that potential and enable fragile state governments to contain aid dependency and (re)build legitimacy vis-à-vis their citizens by using the increased revenue base for improved basic services (OECD/DAC, 2013: 12).

A third argument for greater attention to foreign economic actors departs from the reasoning that foreign investors can also do harm to the socio-economic development of fragile environments, and have repeatedly done so in the past. In response, a variety of voluntary initiatives have emerged over recent years to improve the transparency and accountability of foreign trade and investment, particularly in those sectors that had become infamous for irresponsible business practices. The 2011 WDR, OECD/DAC, (2013), and policies by multilateral development organisations and the Netherlands all stress their commitment to those recent global, regional, country-level and industry-specific initiatives and responsible business standards, such as the Extractive Industries Transparency Initiative (EITI), the Kimberly process and the Voluntary Principles on Security and Human Rights, Forest Law Enforcement, Governance and Trade (FLEGT) and the United Nations Convention against Corruption (UNCAAC) (INCAF, 2013: 77; WB, 2011a: 188; UNDP, 2013: 38/39; NLMFA, 2008: 46; Sweeney, 2009: 38).

**Uptake in policies**

Over the past couple of years, the description of the role local and foreign economic actors play in development has evolved towards a stronger emphasis on the benefits of foreign investments. Generally, whereas stability-focused policies concentrate on the third argument listed above which calls for greater regulation of the global economy, economic growth strategies, including the Dutch multi-pronged trade/development/investment approach, are increasingly outspoken about promoting foreign investment and trade to yield both development and business objectives. Dutch multi-pronged development, trade and investment policies have, however, extended
their development agenda much further into the sphere of national economic interests. Besides presenting security constraints in fragile settings as a direct threat to Dutch economic interests (not just to national security), *A World to Gain* promotes fragile states as an opportunity for Dutch companies to invest in and secure resources and business opportunities – with financial support from ODA budget – that otherwise will be explored by other foreign economic actors.

The trend to concentrate on the favourable effects of foreign companies in fragile states rather than ‘watching out’ for their potential harmful effects on fragility and conflict is in fact a general one. It can partly be explained by the global economic crisis and the search for alternative and innovative forms of development delivery. The latter is also a reaction to mixed results of conventional development cooperation in fragile settings and to the efforts undertaken by the private sector itself to demonstrate the societal or ‘shared’ value of its operations. This growing positive attitude towards the private sector by donors has triggered a readiness on the part of at least some NGOs to place less emphasis on their watchdog role and instead seek alliances with this new potential development partner.45

Lost nuances?
Notwithstanding this rather radical shift in perception, moving from a focus on scandals to a presentation of multiple positive contributions, the 2011 WDR as well as the INCAF offer some critical nuance. On the one hand, the WDR report warrants that not all investment ‘increases with improving state governance’, but that some investments flourish in the absence of environmental and social legal protection (WB, 2011a: 231). Similarly, INCAF acknowledges the evidence that ‘even if company’s payments and government revenues match’ the extraction of natural resources in fragile states can finance illegal armed groups and fuel or prolong conflict (OECD/DAC, 2013: 77).

On the other hand, the WDR, introduces the ‘dual accountability dilemma’ to explain why international actors tend to prioritise form over function. The argument goes that international actors are accountable first to their constituencies and only then to their counterparts and to the citizens of the recipient state (WB, 2011a: 200 ff.). The Report applies this dilemma to the international development sector with some detail, explaining their often prevailing prioritisation of symbolic processes such as elections and the readiness to accept delays in implementation for the sake of greater transparency and accountability towards donors and their tax payers. The relevance, timeliness and legitimacy their strategies may have in the eyes of local stakeholders come second.

In addition, expectations from fragile state government counterparts may not always align with the needs and expectations of other local partners and hence add another layer to the accountability dilemma.

Although not further explored in relation to businesses in the WDR, the accountability dilemma also applies to international investors. Indeed, compliance with international labour standards, for instance, does not automatically imply that business strategies meet the needs

45 Interviews with two NGO representatives. Several NGOs have indeed undergone reforms, as an outcome of which their new organisational structure mirrors the increased priority the organisation lends to its cooperation with international companies.
of their employees. For example, the formal requirement to equip every tenth employee with a mobile phone that enables him or her to call for help in case of an emergency may fulfil a formal requirement. But it won’t cater for the needs of workers in an area where there is no network (as is the case in many rural areas).46 A growing body of empirical evidence on the impact of fair trade offers a wealth of critical insights which suggest that putting the needs and interests of violence-affected populations behind the interests of external constituencies poses a particular challenge to the ambition of conflict-sensitivity.

In the end, whether or not increased consideration of foreign investors in fragile states will benefit local socio-economic development will greatly hinge on the extent to which this new focus comes at the expense of understanding and responding to the needs and potentials of local entrepreneurs. In response to the IOB evaluation, which calls for greater attention to the strengthening of local structures, the Dutch Stabilisation and Humanitarian Aid Department of the Netherlands’ Ministry of Foreign Affairs asserts that local actors and local structures already constitute an important starting point for its policy (NLMFA, 2013d: 7). However, in the context of socio-economic development, this focus is perceived to have shifted from local economic actors to Dutch and international investors, at least as part of its overall development and trade agenda (NLMFA, 2013a).

**Options to ensure benefits for local entrepreneurs from foreign investment**

Policy-makers have different tools at hand to shape the weight and quality of the impact of external economic actors on local communities. First, donor governments can support and encourage international companies to engage in fragile markets in a responsible manner. The promotion of responsible investment can consist of business environment reforms that will discourage irresponsible business behaviour. Another way of incentivising sustainable business behaviour that is receiving a lot of attention in current policy strategies is the support of voluntary regulatory standards.

But more can be done. Development partners could leverage their experience in providing support to local entrepreneurs with the aim to facilitate their link to the supply chains and larger markets of bigger companies. In this context, value chain development has been emphasised as an area of high potential to maximise local benefits of foreign investment and foster inter-company and cross-sectoral relations along the chain (WB, 2011a: 200; Sweeney, 2009: 52 Bagwitz, 2009: 59 ff.; USAID, 2008).

A third avenue towards maximising the benefits of foreign investments for local communities appears to run the risk of being overlooked in the current enthusiasm for the private sector’s role in fragile settings. This is the support donors and development actors can provide to the local civil society in fragile settings. Not only does civil society in those settings tend to be fragmented and absorbed by the necessity to cater for their basic needs. Its space to operate is routinely also quite restricted by governments that are more concerned about security and their monopoly on the use of force than about the freedom of expression of their citizens. As a result, those societies lack the critical mass of checks and balances that can contain arbitrary decisions, whether by government or companies.

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46 Example observed by author in Ethiopia, evaluating the socio-economic impact of the floriculture industry, after the introduction and dissemination of a Code of Practice for better labour and environmental standards.
Most interviewees support the potential benefits that foreign investors can bring to fragile environments. However, they generally concurred that this growing focus on external economic actors should not come at the expense of local entrepreneurs. In other words, local economic development should remain the objective in development. Support to foreign investors should be explored as a possible means to strengthen that objective, but not as a goal in itself.

2. Informal versus formal sector

Most people in fragile settings work in and/or depend on the informal sector. What hampers their socio-economic development is not only the inherent constraints on the growth of informal businesses, but also their vulnerability to violence and crime and the general absence of any meaningful social protection against illness, disability or unemployment (Aryeetey, 2010). This makes the informal sector a topic of particular interest in a review of socio-economic policies. How is the informal sector defined in socio-economic policies and what is their proposed response to deal with a variety of economic activities ranging from informal street vending to well-connected businesses, yielding high profits outside of regulation?48

Recurrent characteristics in informal sector definitions

On the one hand, the informal sector is described and understood as a means of survival, a default solution in the absence of alternative income opportunities in the formal sector. Stabilisation policies tend to look at informal income-generating activities from a livelihoods point of view, emphasising the merits of the informal sector as a means of survival, a locally embedded coping strategy that deserves support (UNDP, 2013: 71; ILO, 2010: 39). But the 2011 WDR also refers to jobs in the informal sector as being perceived, together with agriculture, as the only realistic prospect for large-scale job creation (WB, 2011a: 257).

This picture clearly differs from growth-oriented policies, in which the informal economy is essentially understood as a major constraint to economic growth in the formal sector, as it undermines fair competition. Compared to unemployment, the IFC portrays the informal economy as the greater of two evils, as it captures people in poverty (IFC, 2013: 5, 83). Informal sector activities in these policies are not appreciated for their ability to offer the only available source of livelihood to the majority of people, but predominantly described as major obstacles to the growth of formal businesses. Furthermore, apart from significantly broadening the states’ tax base, larger formal companies are expected to provide better financial and non-financial employment benefits to their workforce than smaller companies, especially those operated outside regulation.

It is also worth noting that there seems to be a general association of informality with smaller businesses: ‘such survival, subsistence-type informal economic activity’ (IFC, 2013: 10).

Moreover, the IFC underscores the link between employment in the informal sector, poverty, and bad labour standards. However, such an implicit link deviates from the fact that informality, particularly in the absence of a regulatory framework and weak enforcement mecha-

47 One commonly cited ILO statistic (from Women and Men in the Informal Economy, 2002) estimates non-agricultural informal employment in sub-Saharan Africa, home of most fragile states, to be around 80 per cent (excluding South Africa). Clearly, if agricultural employment is included, this percentage is even greater. According to Steel and Snodgrass (2008), the informal economy accounts for as much as 90 per cent of new jobs.

48 What is referred to here as the informal sector or shadow economy is not to be confused with the criminal economy, but broadly defined as non-criminal income generating activities that occur outside any legal regulations.
nisms, flourishes at all levels and can go hand-in-hand with formality. For example, Cramer and Sender in one of the background studies to the WDR 2011 explore the frequent practice of informal employment by formally registered larger companies in fragile states (Cramer/Sender, 2010: 1). Furthermore, surveys in West Africa find that a significant number of large firms also remain in informality (Benjamin and Mbaye, 2012). Generally, it is safe to argue that low labour standards unfortunately do not only apply to informal employment but have been reported to characterise large parts of formal employment as well – where labour standards exist de jure, but say little about de facto employment conditions.

Another feature which captures the heterogeneity of the informal sector is the distinction between those few entrepreneurs who came into existence ‘out of aspiration’ and those who established themselves ‘out of desperation’. While the former may be willing to formalise, the latter have proved more likely to remain informal (IFC, 2013: 142). In the past, stabilisation policies and livelihood approaches have focused their attention on the latter, particularly in post-conflict environments and contexts of fragility. But more recent policies have extended their trust to the high-potential entrepreneurs – not only to yield more sustainable development outcomes, but also to foster peace. This growing readiness to target the winners (and not only the losers) in fragile contexts is part of the broader policy trend described in the previous chapter.

**Policy responses to the informal economy**

Although informality features, to various degrees and with varying approaches, in all policies, there is very little on offer in terms of policy directives on how to deal with informality in fragile economies. However, while the UN 2009 policy’s response to the informal sector presents formalisation as the only viable option (UN, 2009: 35, 37, 38), some more room to manoeuvre seems to have been created in recent publications (GF, 2012: 6). UNDP’s 2013 Livelihoods Guide, for example, states that support to the informal sector is no longer primarily aimed at its formalisation, but first and foremost follows the logic of taking existing local initiatives as a starting point and strengthening them in their own right in order to foster livelihoods. The ultimate aim of formalisation has evolved into a secondary objective. By the same token, the ILO supports informal apprenticeship as an alternative to the much more costly formal vocational training system, which requires a lot of prerequisites that fragile contexts tend to lack (infrastructure, formally trained staff, registration/certification systems, etc.).

Reflecting on the challenge of supporting employment in the informal sector, UNDP admits that it takes considerable effort to change the persisting perception within some societies, notably among young people, that working in the informal or micro and small enterprise sectors is proof of failure. To transform that culture, ‘Policies and programmes can be designed to promote attitudinal changes by raising awareness of the potential value of self-employment and work in the informal sector both for individual advancement and for local economic recovery’ (UNDP, 2013: 109/110). Ironically, given the dearth of development strategies to strengthen economic activity in the informal sector, there might be a need for similar promotional activities among the donor community as well.

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49 Statistics used in the IFC’s job study explicitly exclude workers in the formal sector with no proper contract (IFC, 2013: 54).
The World Bank Headline Seminar on Inclusive Growth and Employment in Fragile Situations (2010) treats the topic of the informal sector with some nuance by noting that the employment challenge is not properly faced in fragile situations without addressing the issue of the informal economy, in which the vast majority are (self-)employed: ‘Especially in post-conflict environments, policy makers should resist the rush to regulate informal activities and focus instead on how to leverage the growth of informal enterprises through greater access to finance, technical support, and information’ (WB, 2010: 2).

This emerging readiness to promote the growth of informal businesses as an objective in itself stands in sharp contrast with the IFC’s approach to the informal sector in developing countries. Although the IFC suggests that strategies should consider support for the informal sector through informal apprenticeships and micro-finance, the urgency to link these approaches to incentives to formalise prevails (IFC, 2013: 108). As a compromise approach, some policies focus on the (potential) linkages between formally established businesses and informal producers, often in the context of agricultural value chain development (Dudwick/Srinivasan, 2013).

In sharp contract with these emerging policies calling for support to businesses operating outside formal regulation, the Dutch policies remain largely silent on the topic.50

3.3 Institutions and elite pacts shaping socio-economic development

The role of institutions in the field of socio-economic development in fragile settings was chosen as a third topic for discussion in this policy review partly for its broader thematic angle but also for the attention it has gained in policy circles. What is striking about the discussion around institutions is that the 2011 WDR is much more nuanced than the policies emanating from it, as the latter essentially emphasise the need to strengthen legitimate and functioning institutions.

Most policies on socio-economic development in fragile settings appear to largely disregard the challenges revealed by the WDR with respect to the significance of highly personalised agreements and patronage networks that shape and drive, complement or undermine the formal and informal institutions. This section seeks to present some of the insights offered in the 2011 WDR and then screens other policies for possible take-up of these nuances, in both their analysis and policy response. Since the scope and purpose of this review do not allow for comprehensive coverage of this broad topic, this section raises only a small number of considerations revealed in the policy documents reviewed.

Within policy circles, what quickly spread as the WDR’s central message is the recognition ‘that strengthening legitimate institutions and governance to provide citizens with security, justice and jobs is crucial to break cycles of violence’ (WB, 2011a: 2). The composition and prioritisation of this trilogy has often been labelled as a ‘fundamental re-think’ on how to ap-

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50 The 2013 letter on Entrepreneurship for Development does, however, highlight the role of the private sector as the main provider of formal and informal employment (NLMFA, 2013b: 15). The A World to Gain policy refers to the informal sector only once, acknowledging that many people, especially women, work in the informal sector (NLMFA, 2013a: 16).
proach fragile states (Wittkowsky, 2011: 3). This judgement might apply to the report in comparison to its predecessor; the much decried 2003 WDR on Breaking the Conflict Trap (Jones/Rodgers, 2011: 1).

However, the insights that ‘weak institutions are a critical factor in explaining cycles of violence’ (WB, 2011a: 10) and that there is a need to ‘accept the links between security and development outcomes’ (WB, 2011a: 276) merely echo earlier statements. The WDR team itself recognises that previous work by INCAF already emphasised the links between peacebuilding and statebuilding (WB, 2011a: 10). And, as stated elsewhere, ‘it has been argued for more than 20 years that institutions matter for growth and poverty reduction as well as for political stability and inclusive social development’ (DFID, 2010: 9).

Yet, portraying the promotion of legitimate and functioning institutions as *sine qua non* of overcoming crises serves the Bank’s own strategic interests rather well. With institutional development at the heart of its mandate (WB, 2011b: 1), the Bank positions itself prominently through the 2011 WDR as a key player within the new approach for a more effective engagement in contexts of fragility.

What is more likely to qualify as a shift in thinking, particularly for the World Bank Group itself, however, is what the 2011 WDR says about the dynamics that take place behind these institutions and what is repeatedly referred to in the report as power bargains, informal agreements or elite pacts. Reflections on the deeply political nature of fragility are even more intriguing in the light of the Bank’s mandate preventing it from getting involved in political matters. Nevertheless, in its 2011 WDR operationalisation strategy, the Bank actually admits that its institution-building approach has been so far too technocratic. Instead, the WB argues, reality in fragile settings calls for an approach to restoring confidence and building institutions ‘that is adapted to the local political context’ (WB, 2011b: 1).

**The informal power struggle behind the façade of formal institutions as presented in the 2011 WDR**

Two concepts and the way in which they a in the 2011 WDR are revealing of the Bank’s understanding of the informal political dynamics in fragile contexts: institutions and elite pacts.

‘Institutions – the formal and informal ‘rules of the game’. *They include formal rules, written laws, organizations, informal norms of behavior and shared belief – and the organizational forms that exist to implement and enforce these norms (both state and non-state organizations). Institutions shape the interests, incentives, and behaviors that can facilitate violence. Unlike elite pacts, institutions are impersonal – they continue to function irrespective of the presence of particular leaders, and thus provide greater guarantees of sustained resilience to violence. Institutions operate at all levels of society – local, national, regional, and global*.’ (WB, 2011a: xvi)

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51 However, later in the report it is stated that the report’s ‘work on institutional correlations is new, and (that) more research is needed on why countries with weak formal institutions experience repeated bouts of violence’ (WB, 2011a: 87).

52 As pointed out by Rocha Menocal and Othieno (2008), given its mandate, the Bank’s definition excludes explicitly political variables, while giving considerable weight to macro-economic management, the strength of institutions and the quality of (economic) governance (Rocha Menocal/Othieno, 2008: 1).
‘Elite Pacts are formal and informal agreements by the holders of political, military, or economic power. These agreements, often enforced through coercion and patronage, are typically ‘personalised’, based on individual agreements. Throughout history the key-motivating factor in forming an elite pact has been the wish to contain violence and to secure the property and economic interests and opportunities of pact members. The report argues that elite pacts can provide short term security but that violence often recurs unless the pact broadens and is accompanied by institutional transformation’ (WB, 2011a: xv).

Drawing on these definitions, the report explores the power struggle behind the façade of formal institutions in various text passages. First, it acknowledges the importance of informal institutions, recognises the continuous interaction between informal and formal institutions (WB, 2011a: 122), and describes how legacies of mistrust and corruption have to be overcome to rebuild confidence and shared belief (informal institutions) in formal rules and organisations (formal institutions). The report furthermore recognises that any important shift within fragile societies will create both winners and losers and that the latter group will generally resist change (WB, 2011a: 8), also realising that any external intervention will force a change in the division of economic and political benefits (WB, 2011a: 87). Moreover, attention is given to the need for strong leaders to build (often informal) coalitions for change, but also to the challenge of then transforming ‘personalised leadership to more permanent, depersonalised institutional capacity and accountability’ (WB, 2011a: 106).

With these elaborations, the World Bank exhibits a thoroughly political approach to understanding problems of socio-economic development and peace that clearly goes beyond the conventional approaches of institutional economics.

The main difference between institutions and elite pacts is explained by stressing the impersonal and inclusive character of institutions as opposed to the personal and exclusive nature of elite pacts. However, this clear-cut distinction seems to overlook the fact that formal organisations – and even written rules in fragile contexts where there are deeply entrenched systems of patronage – tend to stand and fall with powerful people. In reality, the line between strong political leadership in institutions and personalised elite pacts is elusive. And the World Bank’s rhetoric of ‘acquisition of legitimacy’ (WB, 2011b: 3) and ‘delivery of security, justice and jobs’ – as if these were commodities (Jones/Rodgers, 2011: 12) – is not helpful in distinguishing between (institutional) efforts to be perceived as fair by citizens and (elites’) endeavours to buy loyalties.

The central tenet of the report in terms of policy response is to develop a better understanding of elite pacts in order to progressively transform them into more inclusive and less personalised institutions. More specifically, the WDR suggests two new strategies: a stronger focus on domestic political struggles and the search for and incremental expansion of so-called ‘inclusive-enough coalitions’.
Policy response: understanding internal political struggles and working with inclusive-enough coalitions

The World Bank’s call for a stronger focus on the political economy entails, first of all, a more politically sensitive understanding of fragility. For instance, it points out that in some cases fragility is not a result of recent violence, but linked to structural realities despite the existence of relatively stable institutions (WB, 2011b: 1). The WDR team further acknowledges that the work of the Bank’s former research director, Paul Collier, ‘focuses less on domestic political dynamics and more on low income, corruption and natural resource rents’, a shortcoming the report seeks to complement.53 The report also demonstrates awareness that ‘any intervention (e.g. holding elections, dismantling patronage networks, giving new roles to security services, decentralising decision-making, empowering disadvantaged groups) will inevitably create both winners and losers’ (WB, 2011a: 9).

As a next step, the proposed strategy to assist fragile societies to transition from elite pacts to inclusive, legitimate and accountable institutions is to work with so-called ‘inclusive-enough coalitions’. The idea is that transition opportunities can lead to more decisive action if leaders build coalitions for change (WB, 2011a: 120). Such coalitions, most frequently informal arrangements, might not be all-inclusive. However, they might offer entry points for change whose legitimacy base can then be broadened over time.

The private sector is highlighted as a crucial partner in those coalitions as ‘outreach to the private sector can help build a sense of the long term, which is critical for planning, investment in the future, and sustainable growth’ (WB, 2011a: 122). Another recipe for success for such coalitions at national, sub-national or local level seems to be: the more diverse, the better the chance of growing societal legitimacy and support (ibid.). Informal patronage networks are listed as potentially necessary partners in that coalition, albeit on a temporary basis. The idea is then to dismantle those patronage systems over time, as depersonalised institutional strength builds (WB, 2011a: 123). Another critical ingredient of success is the ability to articulate a vision of hope, develop a sense of shared identity and to communicate that broadly (ibid.).

How much of this is reflected in the policies reviewed for this report?

Generally, there is growing awareness of the significance of the political economy in contexts of fragility. As the policy spectrum framework introduced in Chapter 2 shows, while economic policies have increasingly looked into the political dimension of economic development, stabilisation and peacebuilding policies have incorporated greater awareness of the economic factors of political processes and interventions.

More specifically, the interaction between local power structures and socio-economic development was largely absent in the 2009 UN policy, but does feature in UNDP’s livelihood guide: ‘Emergency employment projects can inadvertently strengthen local power structures if local or community leaders are able to channel benefits to their families or client networks, creating patronage and social exclusion’ (UNDP, 2013: 37). The policy further envisions the

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53 Yet, the insights emerging from political economy analyses suggest that these are two sides of the same coin, as low income, corruption and natural resource rents cannot be understood and addressed without understanding the internal political processes driving and sustaining those phenomena – in other words, without an understanding of who benefits from them.
systematic use of political economy analyses to explore the ‘power dynamics, the influence and incentives of political participants, and their interest in reform’ (UNDP, 2013: 91).

As shown in section 2.3, the Netherlands and other bilateral donors have also committed to context analyses that take greater account of the political dimension and power dynamics of conflict and fragility, with the Dutch *Fragile States Strategy* stating that ‘a detailed analysis of the local political situation should dictate the mix of interventions’ (NLMFA, 2008: 22). However, when it comes to the question of how political economy analyses are being used in development practice, it appears that this insight – which was meant to introduce a paradigm shift from conventional technocratic donor approaches to more politically informed and sensitive strategies – tends to become yet another technical exercise, often outsourced to external consultants, to legitimise donor interventions in fragile contexts without actually influencing them. As experts interviewed for this review confirmed, conflict and political economy analyses rarely translate into a more political engagement in socio-economic development, but rather serve as a guide to manoeuvring socio-economic development around fragility issues.

A clear proof of this missed opportunity is donors’ general reluctance to collaborate and support coalitions of leaders that may lack a broad and diverse support base (and which the WDR refers to as inclusive-enough coalitions). No policy recommendation could be found in the reviewed policy documents implying support to existing elite pacts and informal arrangements between local leaders. Instead of taking those existing coalitions as a starting point, the UN, for instance, proposes to develop ‘legitimate and transparent channels of influence, which may need to replace existing informal mechanisms’ (UNDP, 2013: 90).

In contrast, while economic growth-oriented policies generally emphasise the urgency to improve the enabling business environment to promote fair and inclusive socio-economic development, these strategies routinely focus exclusively on formal state institutions and at most depict economic elites as potential rent-seekers and unfair competitors. The one-sided perception of the informal sector as powerless micro-entrepreneurs, whom policy-makers are carefully showing some readiness to support, may also be interpreted as donors’ reluctance to engage with the more influential power-brokers.

**Possible explanations for reluctance in policies to move from a technical to a politically informed and sensitive approach**

Interviews with policy-makers and experts suggested a number of possible explanations for donors’ reluctance to shift from technocratic institution-building to politically sensitive and locally grounded approaches that may entail compromise rather than best practice.

First and foremost, adopting a politically sensitive and locally grounded approach in fragile contexts seemingly implies meddling with internal political struggles. This is something donors are reluctant to do openly, and for good reasons. For some international actors, such as the World Bank, their mandate may formally dictate that they should not get involved in political matters. For donors and development partners more generally, political interference in internal affairs is traditionally not appreciated by host governments, whose political buy-in remains critical for effective cooperation.
By reaffirming the principle of ownership and putting fragile states’ governments in the lead of any development cooperation in their countries, openly announcing a shift from a technical to a political engagement would simply put an end to most international engagement. Donors and their development partners therefore continue to emphasise the technical, apolitical nature of their work.

Moreover, working with domestic power networks and inclusive-enough coalitions entails the risk of ending up supporting illegitimate leaders, which might eventually cause problems of accountability to donors’ own constituencies (see dual – or multiple – accountability dilemma in previous section). Hence, donors tend to seek better political insights primarily to assess the risk of their interventions, rather than to influence internal power politics directly. Another reason brought forward by interviewees relates to donors’ and implementers’ own organisational structures. Responsibility for developing socio-economic policies for fragile contexts lies either with an economic department or a more politically-oriented organisational unit, but is rarely a joint effort. Policy experts confirmed that this generally causes a certain bias towards either economic or governance targets and a tendency towards neglecting the links between political and economic local actors and their respective interests.

Lastly, the prevalence of conventional development tools (e.g. logframes) and the need for clear and tangible targets do not match well with the challenges of a more political approach, which would entail a greater focus on political processes, longer-term timelines, room to experiment, and the flexibility to adjust an approach that has not worked well enough. Although these technical, result-oriented tools and frameworks have proved resistant to adapt to highly volatile environments and yield the expected results, they are part of a larger system of donors’ accountability vis-à-vis their domestic constituencies. Tax payers and parliaments in donor countries demand tangible results and are less convinced by processes as long as these haven’t materialised in measurable outputs, as NGOs pointed out.

These political, organisational and practical constraints may at least partly explain why the ultimate paradigm shift called for by the 2011 WDR still awaits its implementation: The challenge ahead for donors and their development partners is to translate their growing political awareness into a more politically informed and economically sound engagement daring to influence the incentives for local leaders to gradually deliver sustainable changes towards more inclusive socio-economic development.
Concluding remarks

The review and analysis of influential Dutch and international policies on socio-economic development in fragile settings suggest two major findings.

First, the reviewed policies essentially stem from two distinct policy fields, the economic development and the peacebuilding domain. Policies from these two respective areas are found to tackle the multi-layered nature of socio-economic development in contexts of fragility with different primary goals, and with different understandings of the link between socio-economic development and fragility, and hence produce distinct sets of policy responses. Appreciating these differences in approach helps us to understand the comparative strengths and complementarities of these policies.

Second, policies from both fields are found to be undergoing a converging trend. While the peacebuilding and economic development communities used to operate largely independently from one another, the complexity of fragile settings has prompted their mutual rapprochement. These trends can be understood as part of a major paradigm shift in international thinking on conflict and peace: the call for greater awareness and a thorough understanding of how economic actors, and socio-economic needs and opportunities, intertwine with the inherently political nature of fragility and how, in turn, the long-term success of peacebuilding processes hinges on enduring economic prospects.

In principle, the rapprochement of these two policy fields on the topic of socio-economic development in fragile settings unleashes significant potential for leveraging complementarities and comparative strengths, and hence for smoothing the way for more systematic joined-up policies and partnerships. Closer cooperation and complementarity in peacebuilding and economic development policy-making will be critical to address the complexity of factors that make certain regions fragile.

To date, as the discussion of three controversial issues revealed, competing languages and priorities seem to prevent this potential from unfolding. However, the juxtaposition of jobs and livelihoods, local and external economic actors, institutions and elite pacts did not lead to the conclusion that these approaches are incompatible. Rather, it revealed how the two seemingly competing perspectives not only can but should be combined to promote socio-economic development and contain fragility.

First, while the focus on livelihoods in their multiple facets has been and continues to be a defining theme and approach in UN policies, notably taken forward by the UNDP and ILO,
the concept has largely been absent from the influential WDR. Yet, the analysis concluded that despite the obvious shortcomings of the concept there are compelling arguments for continued attention to livelihoods in future policies. What may be emphasised as a limiting factor – its natural focus on households and the community level – is in fact its comparative strength. If complemented by other frameworks of analysis at higher institutional level (e.g. resilience), the livelihoods approach, with its tools and systems, could play a critical role in gathering the much needed empirical evidence on how fragility impacts on households and to what extent socio-economic strategies are successful in countering this impact.

Second, the apparent contrast between a mounting enthusiasm to welcome foreign investors to the scene of development and peace and the growing readiness to extend support to those local economic actors who operate below the radar of formal regulations is not a matter of ‘either/or’. A better understanding of both actors bears relevant insights into the trade-offs of economic efficiency in contexts of fragility and high risk and into (economically less efficient) local coping strategies that can foster resilience. In the end, conflict-sensitive socio-economic development will require both the resources and commitment of external economic actors and their embedment in the local economy.

Third, what this review unpacked as the actual paradigm shift of the 2011 WDR consists in its elaborations on the prevalence and significance of elite pacts and power networks that shape or undermine the formal and informal institutions in fragile societies. Whereas the report’s general emphasis on the importance of functioning inclusive and impersonal institutions has travelled with ease into all policy documents, these more challenging acknowledgements of highly political interdependencies and the call to engage with so-called inclusive-enough coalitions are largely neglected in the policies reviewed. Donor policies generally recognise the complexity of fragility and commit to thorough political economy analysis. However, the implications of such analyses are yet to translate into politically informed and sensitive approaches.

The key to overcoming the political, practical and organisational obstacles that were identified as hampering that process may lie, once more, in a better understanding of the comparative advantages of different policy domains and greater readiness to partner-up with other policy communities and implementing organisations that are better equipped to do the job. Indeed, there is a difference between acting upon a sound understanding of internal political affairs and actual interference. Understanding and using political insights may not necessarily require exceeding one’s mandate. Rather, a better understanding of the incentives and opportunities of local actors will help to decide how to focus and design interventions in fragile situations more effectively. Insights into the political economy of state- and peacebuilding will further help to decide when and where it is appropriate for socio-economic development actors to refrain from providing support and/or partner up with other organisations that are better equipped to carry forward the political dialogue.

Evidence from the policies reviewed for this study suggests that the ingredients for a comprehensive and balanced approach to socio-economic development in fragile settings already exist and have complementary strengths. The question now is whether these new insights are taken forward in more systematic collaboration between policy-makers of both the peacebuilding and economic development domains. Future research can encourage and guide such collaboration.
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Links, blogs, websites


Kaplan, Seth: Where are the development political scientists? On: www.fragilestates.org/2012/08/14/where-are-the-development-political-scientists


www.enterprise-development.org/page/cae
ANNEX A Experts interviewed

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ANNEX B Policy documents reviewed


The Special Chair Humanitarian Aid and Reconstruction focuses on the everyday politics and practices of service delivery, livelihoods and disaster risk reduction in the institutional landscapes of conflict- or disaster-affected areas. It engages in multi-sited qualitative and quantitative research. Research of Humanitarian Aid and Reconstruction is collaborative, interacting with policy and practice throughout the process to enhance research uptake.

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Timo Gaasbeek en Roelof van Til, 2014

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Rethinking ‘entrepreneurship’ in fragile environments: Lessons learnt in Somali women’s enterprise, human security and inclusion.
Holly A. Ritchie, 2014