

Stabilisation through Economic Initiatives: Private Sector Development (PSD)

Purpose

Issues Notes provide a short summary of what the Stabilisation Unit has learned to date and what we think is good practice. They have been developed in consultation with other government departments. They are aimed primarily at the Stabilisation Unit's own practitioners and consultants, and those of other HMG departments. They are not HMG policy.

Key messages

- Use Private Sector Development as an important tool for stabilisation. The private sector is defined as including *any person who sells something aiming to make profit*. It therefore includes micro businesses such as small-scale farmers and sellers in the informal markets as well as multinationals, large, medium, and small businesses.
- Base economic initiatives upon context, conflict and labour market analyses. Verify the guidance provided in this note against the realities and conflict dynamics in the specific context. In doing so, understand not only economic but also political, security and social dimensions and inform the nature of the intervention upon these dynamics. Failing to do so might limit the impact of Private Sector Development (PSD) on stabilisation or even have negative impact. Pay special attention to risks of socio-economic exclusion and monopolisation of the economic benefits created.
- Initiate economic initiatives as a necessary pre-condition for the economic reintegration of ex-combatants and returnees. Mobilise the existing private sector to facilitate reintegration processes by providing on the job training, apprenticeship places and including the new entrepreneurs in their chains of supply and production. Most ex-combatants become private sector actors themselves (as farmers or micro business owners) or will be employed by them.
- Use successful economic initiatives as a sign of stabilisation. The private sector's resumption of activities shows the effects of peace, such as shops reopening, reduction of costs of basic food items, improved and less expensive transportation, more job opportunities, potential tax revenues, improvements in basic infrastructure and overall impression of the road to normality.
- Reduce security and investment risks and restore infrastructure to reduce costs of doing business in hostile environments. The private sector is also one of the primary beneficiaries of stabilisation.
- Open-up new peacetime economic possibilities to compete with the conflict economy. It can reduce the availability of new (and old) potential combatants because alternative employment becomes available. The private sector is the main employer during conflict, which is true for the war-economy as well as for the desired peace-economy. The business climate in the illegal economy can develop to a point where it is highly competitive with the legal economy.
- Reduce tensions between opposing groups (ethnic, political, fractions, religious) through economic initiatives. Bring economic actors together to discuss the common goal of increasing

- business revenues and boosting local economies. Building trust through the economic interaction between groups can encourage social and political reconciliation.

Introduction

Economic recovery, especially through creating employment, has been shown to significantly reduce the risk of future conflictⁱ. Armed conflict tends to erode the productive capacity of both rural and urban operators in the formal and informal economies. It destroys workplaces, weakens labour markets, training and other labour-related institutions. It reduces the availability of productive land due to anti-personnel landmines and unexploded ordnance. Systems of land ownership become destabilised and productive assets are stolen or destroyed (equipment, cattle, raw materials, workshops, etc.). Conflict also causes considerable damage to physical, social and economic infrastructure (marketplaces, warehouses, water, communications and energy facilities). In addition, trading networks vital for marketing goods and supplying businesses are disrupted and public and private sector investment declines. While employment opportunities become scarcer, working conditions tend to deteriorate, and it becomes easier to exploit workers and violate their rights. The macroeconomic instability that characterizes conflict and post-conflict contexts further limits the opportunities for decent workⁱⁱ. In some countries these effects are compounded by natural disasters.

Trust, inclusion, exchange, cooperation and coordination are favourable to economic activity, stimulating entrepreneurship and attracting investors. In the aftermath of conflict however, social cohesion is usually close to non-existent. Newcomers (refugees, IDPs, combatants), returnees (including ex-combatants) and victims of sexual violence and other war crimes have difficulty (re)establishing their place in society. Communities can be affected by outflows of young people who have joined armed groups. With all the economic disruption brought by the conflict, people lose their faith in future prosperity and tend not to aspire beyond the level of survival activities.

Stabilisation is support given to countries emerging from violent conflict in: Preventing or Reducing violence; Protecting people and key institutions; Promoting political processes which lead to greater stability; and Preparing for longer term non-violent politics and development. Economic initiatives can contribute to these different elements of Stabilisation.

Economic initiatives involve a complex set of interventions at the macro and micro level and are made up of various parts of state and private sector functions and deliverables. However, during stabilisation periods the most urgent challenge is job creation. It is in most countries only the private sector that can stimulate a dynamic that creates jobs and livelihoods in the short term. This Issues Note therefore concentrates more on Private Sector Development (PSD) as a tool for stabilisation and will only touch upon other economic issues (such as macro-economic policies, public sector employment, debt relief, economic sanctions, fiscal policies, inflation etc.) where relevant for PSD.

Why Private Sector Development (PSD) as part of stabilisation?

It is common sense that improved stabilisation encourages the private sector to expand and grow and that stabilisation thus has a direct impact on PSD. It is also understood that economic

instability is a conflict driver and that without economic recovery and related job creation stability will not be effective or lasting. The evidence highlighted in a studyⁱⁱⁱ of eight countries on the linkages between youth unemployment and conflict clearly point to the fact that massive youth unemployment creates the grounds for violent conflict and that violent conflict furthermore aggravates youth unemployment, dragging countries such as Liberia and Sierra Leone into the negative spiral of conflicts.

Roots of conflict: youth unemployment

It is crucial to understand the roots of conflict in order to maximise efficiency of interventions. Poverty, unemployment and unequal access to economic opportunities are among the underlying structures of most conflicts. According to the recent study of the United Nations Office for West Africa (UNOWA), analysing youth unemployment in West Africa and its links to conflicts in the region, the lack of appealing opportunities for youth is a strong contributing factor to the escalation and continuation of armed conflict and violence. According to former Ambassador Ahmedou Ould Abdallah, UN Special Representative of the Secretary General for West Africa:

There are 3 major challenges to peace and security in the West Africa region today. The first is the increasing consolidation of an arc of instability, comprising large zones of lawlessness in the region. The second is the ever-growing criminalization of armed conflict, in which conflict has now become a business-oriented venture, whether the profit is for diamonds, timber or the trafficking of arms. The third is increasing youth unemployment across the region, which represents a great threat to peace and security. Today, 43.5% of the population in West Africa is under-15 years of age. This group numbers in the millions and faces acute unemployment. One could conclude that armed conflict may be the biggest employer of young people in the region.

Youth are being regarded as agents for change, the "only hope for the future", "the vulnerable" as well as the "biggest potential source of instability" and war.^{iv} Economic initiatives, especially job creation through PSD, must therefore be an important dimension of stabilisation.

Youth Unemployment and Regional Insecurity in West Africa. UNOWA, 2005 Dakar

What is less understood, but of crucial importance in stabilisation efforts, is that economic initiatives can be one of the tools for fostering stabilisation as it creates jobs, increases purchasing power of the population, stimulates local economic recovery and development, facilitates networks across ethnic and "enemy" borders, re-establishes trust in the government and concretely shows the peace dividend. Especially in cases where economic issues are among the drivers of conflict, equal access to new economic opportunities is essential. Also, DDR programmes, a well-recognised tool for Stabilisation, have proven unsuccessful and unsustainable if not embedded into more rigorous economic recovery and PSD. Therefore, as one part of stabilisation processes, economic initiatives have a strong role to play in the prevention of violence, the prevention of re-occurrence of violence (such as through effective and sustainable reintegration of ex-combatants), transformation of war-economies into productive legal economies and the preparation for longer term development.

Private Sector actors as Peace Initiators

The private sector has played a very dynamic, proactive role in the peace building initiatives in South Africa and Northern Ireland. There has been a well-structured, strong initiative from the private sector in addressing the national issues. In these countries there is what is referred to as the Business for Peace Initiative, which has an emphasis on consistency, sustainability and greater participation by local business people in conflict affected areas. The Business for Peace Initiative aims to empower business people so that they can act as a facilitator between the other stakeholders involved in the conflict at a formal or informal level. This went a long way in helping with the question of unemployment, poverty and destitution.

Case Study: FCCISL BPI team for South Africa, Northern Ireland to study private sector involvement in peace building

The numbers of jobs that can be created in the public sector are normally very limited immediately after war (with the exception of countries with big functioning state-owned enterprises). The private sector is therefore normally the biggest potential employer in stabilisation contexts and so economic initiatives should focus on assisting the private sector to (re)start and to grow. What is needed is more emphasis on maximizing labour absorption at the local level and enhancing people's employability. We need to find economic incentives for peace in a country where war might be the main employer.

The link with security, SSR and the role of the military should be emphasised: no economic initiatives or PSD is possible without basic security and no lasting security without jobs, livelihoods and income. However, economic incentives must be combined with enforcement measures to transform war-entrepreneurs into peace entrepreneurs.

The three crucial elements for increasing stabilisation through economic initiatives are 1) the business enabling environment, 2) local economies, and 3) the role and needs of the private sector. These three elements are interdependent and should be stimulated simultaneously, if they are to contribute to stabilisation.

1. Creating an enabling environment for PSD

Understand war-economies: Conflict creates the conditions in which an illegal economy can flourish both because of a general break down of law and order, and because of widespread impediments to the operation of the legal economy creating competitive advantages to operating in the illegal economy, e.g. poppy production in Afghanistan. In order to start any economic initiative it is crucial to have an understanding of the political and economic situation and relations on the ground. While the security situation does not always allow for fully fledged analyses a start has to be made as far as is possible at that point in time. Regular updates are required as the situation on the ground might change rapidly.

What is Political Economy Analysis?

Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time¹. It is based on the assumption that in society political change can affect the distribution of economic power and resources and that economic change can, in turn, induce political change. In reality these processes are closely intertwined and part of a unified set of dynamics, particularly in developing countries where the political and economic realms are largely overlapping. To make sense of political economy, we need to understand this interaction between the political and economic spheres and the implications for development outcomes². In order to effectively plan economic initiatives that will contribute to stabilisation, this kind of analysis is crucial.

Combatants and politicians are often important stakeholders in the highly profitable war-related businesses and making these businesses legal, or transforming them into ethical appropriate ventures has proven far from easy. Representatives in peace-talks might be political actors, but also economic actors with related agendas. It is important to differentiate between the motives of the leaders/warlord and the average soldiers and conflict affected people. While the latter might be very interested in the economic incentives of peace, such as decent jobs and learning opportunities, it might be less attractive to some of the rich elite. A two-track approach is therefore needed: reducing the availability of potential combatants and workers in the war-economy by creating a maximum amount of learning and job opportunities, while simultaneously engaging with the more influential war entrepreneurs through both enforcement measures and increasing benefits of operating in the peace economy.

Household decision making and licit livelihoods

A diversity of factors influence household drug crop cultivation that are currently neglected including returns on labour, access to security, credit, land and the effect of law enforcement. The failure to recognise the complex dynamics of household decision-making undermines the effectiveness of many strategies and may result in unintended consequences. Attention needs to be paid to linkages between law enforcement initiatives and assisting economic actors to adopt licit livelihoods.

Support the Government: While economic initiatives and sustained growth cannot be maintained in the absence of appropriate macroeconomic policies, labour market policies can help to ease the transition and contribute to early recovery in employment and a reduction in poverty³.

¹ OECD-DAC definition, from OECD website

² Adrian Leftwich, Drivers of Change; Refining the Analytical Framework, Part Two, 2006

³ Krishnamurty, Jayasankar. 2003. "The Labour Market and Conflict" in: Date-Bah, Eugenia, ed. *Jobs After War: A Critical Challenge in the Peace and Reconstruction Puzzle*. International Labour Organisation (ILO), Geneva.

At the end of conflict, public authorities must try to speedily restore the basic conditions required for a well-functioning labour market which enables PSD. At the national level macro-economic issues such as currency stabilisation, reform of fiscal policies, expenditure and revenue policies etc. are crucial, but sequencing of these interventions is. For example, early change of currency might actually affect small scale businesses negatively as it destroys their savings.

Governments must be assisted to create an environment in which businesses can operate such as to improve physical security by safeguarding transport on main roads, removal of mines from agricultural land, the removal of roadblocks and facilitation of cross-border trade, restarting or improvement key infrastructure (such as power, water, telecoms, transport) etc. In some countries the Government is actually hindering economic development through taxation, corruption, interference of military staff etc. Engagement with the Government on overcoming these obstacles is crucial.

Settle property rights: An urgent issue in many stabilisation contexts such as Iraq, Liberia, and Afghanistan is land and property rights. These are often highly politicised and contested. People are not willing to invest if there is a high risk of eviction from the land. It is difficult to use non-owned land as collateral. Settlements of disputes and revision of land rights are urgent issues in stabilisation. One example is Iraq, which has set up a property claims commission.

Ensure equal access to economic opportunities: Providing equal access to employment opportunities for the different ethnic groups is often an important issue in the aftermath of conflict. Also, policies and measures that promote gender equality in the labour market are important to introduce or strengthen in the very early stages. Stabilisation efforts should avoid re-establishing pre-conflict mechanism of discrimination and exclusion - which might have been among the root-causes of the conflict - in order to build lasting peace.

Reinforce existing service providers: An immediate need, especially where peace is fragile, is to begin restoring systems of information flows between people looking for workers to hire and people looking for work. In the stabilisation situation, systems by which employers (including international organisations) and job seekers come to know of each other and their requirements, no longer exist (or never existed) and a new system of bringing them together is needed immediately. It is advisable to set-up emergency employment centres as soon as security allows. The initial situation will be of excess supply of labour in relation to available jobs and therefore employment centres' role in counselling and locating training and self-employment opportunities should be emphasised.^v

The role of the chambers of commerce and the business associations will gradually increase and they are often a crucial entry point for engaging with the national private sector. The capacities of crucial labour market institutions and organisations should be strengthened from the beginning. Microfinance institutions are an important group of labour market institutions for economic initiatives.

Skills training providers are another important cluster of service providers that need assistance and capacity building to deliver sufficient quality and quantity of training in skills that are actually in demand in the local labour markets. Conflict is likely to have caused serious loss of skilled people by death, population movement and “brain drain”. It is likely that little or no training will have occurred during the conflict leaving behind a generation of youth without skills. Identifying skills in demand in the private sector, investing in rebuilding training facilities, retraining trainers and redrafting curricula on that basis is an urgent requirement in all stabilisation contexts. This activity can best be started in safer areas and can be initiated as part of Disarmament, Demobilisation and Reintegration (DDR) and Quick Impact Projects (QIPs) programmes.

While the relevant ministries might not be fully functioning yet at the time of stabilisation, it is crucial to link all above activities to the relevant government structures as soon as possible and to strengthen their capacity to perform their role in these.

Ensure security: In addition, creating an enabling environment includes improving security on the ground in order to protect businesses, assets and personnel in order to reduce risks and related costs for business development and expansion. Also for Foreign Direct Investment (FDI), security remains the biggest obstacle and the pre-condition for larger investments.

Repair crucial infrastructure: Reducing costs of doing business through infrastructure repair and development is crucial and urgent. Services such as transportation, communications, water and energy are all crucial for stabilisation through PSD. Identifying the most important infrastructure at the local and regional levels that once repaired will create positive economic dynamic – e.g. economic corridors, power supplies, market places, irrigation, training centres etc.

2. Boosting local economies

Local Economic Recovery: (*LER*) is a participatory, area-based approach to post-war recovery. It provides context specific solutions to poverty and socio-economic vulnerability based on local resources, assets and opportunities while maximizing the employment creation potential of local, national and international investments for rehabilitation and reconstruction. For example, using local labour and raw material in the construction of a school will enhance the economic impact of the investment that was originally focused on getting children back to school. Broad-based consultation and dialogue involving stakeholders from the public and private sector as well as civil society representatives should result in the definition of LER strategies and initiatives.^{vi} LER focuses on producing immediate and visible results through short-term interventions such as Income Generating Activities and QIPs, but in strategic manner with a view towards sustainability.

Economic QIPs: Quick Impact Projects: Quick Impact Projects are short-term, small-scale initiatives that are designed to have an immediate impact contributing to stabilisation and/or post-conflict recovery. They need to be created and developed as part of the overarching strategy and to have a sustainable impact on longer-term development objectives and this should be taken into account in the planning stages. The Brahimi Report notes that “all peace operations should be given the capacity to make a demonstrable difference in the lives of the people in the mission area, relatively early in the life of the mission”. Set in the strategic context, one of the aims of QIPs should be to contribute to the local economies and thereby kick-start economic activity and dynamics. There are methodologies in place that allow for quick mapping of economic

opportunities which the military and humanitarian agencies might best undertake through local actors^{vii}.

There is a tension between quick results and building local capacities and capabilities? However, this can be balanced by:

- Building maximum human capacity, such as of local contractors, which requires simple forms of contracting, tendering and provision of advance payments
- Linking appropriate technology (good enough) to local resources, knowledge and materials in order to ensure maintenance and repairs in the future
- Using QIPs to boost local economies and kick-start private sector activities, because the private sector is dynamic in nature and business people often only need some initial assistance in order to recreate lasting economic dynamics and activity
- Applying the QIPs -principle “as military as necessary and as civilian as possible”
- Keeping an historical record of (a) completed, (b) ongoing and (c) planned QIPs and ensuring information sharing and hand-over to the next battalion, NGOs and local government

Access to natural resources and infrastructure: Increasing physical access to markets through the re-opening of transport links is an important activity to boost local economies, as is increasing local PSD actor’s access to and benefits of natural resources. However, unless the underlying reasons for conflict are understood, economic initiatives could increase instability, e.g. conflict originally fuelled by preferential access to natural resources could be restarted if these systems of access are reinstated. The same is true for the potential monopolisation of the newly established infrastructure by certain ethnic or elite groups. Where possible, local contractors should be used and government involved in oversight of contracts.

The use of less equipment and more manual labour, so called *labour based reconstruction methodologies* (cash and not food for work!) are preferred in the stabilisation contexts as they provide a large number of temporary jobs and increase cash-flow in the communities. In addition, if infrastructure projects are chosen that have a *direct* impact on the local economy (access road to markets, rehabilitation of market places etc.), the benefits are even higher. The inclusion of an element of contractor training in labour based reconstruction projects is more likely to create lasting jobs and also contribute to stabilisation. Selection of local contractors must be done in a conflict sensitive and transparent manner, not creating / reinforcing ethnic or other social tensions.

Supply chains and procurement: Procuring goods and services locally to support suppliers and supply chains are crucial elements with direct impact on local economic dynamics. The way procurement is done, such as locally versus imported, has a major impact on the national but especially local economies. In general, local procurement is the preferred option as it creates jobs, boosts local economies and increases cash-flow - all of which are crucial elements for stabilisation. However, it must be carefully assessed as local procurement also has the potential to disturb local markets and prices significantly.

3. Direct assistance to the private sector

Mobilise Private Sector actors: Most companies also have a logical interest in conflict prevention and conflict resolution. Their interest includes avoiding business disruptions linked to violence, damage to socio-economic infrastructures, harm to property and employees, uncertainty, etc. Security and business agendas are intertwined in conflict areas. Even companies that stand to profit from some aspect of a given conflict, such as a better niche due to the disappearance of competitors, stand to lose, as violence is hard to control. Conflict does not stop at the gates of a firm, or at the borders of a country, or even at those of a continent^{viii}. The private sector, both local and international, has unique expertise, know-how and resources that NGOs and international organizations do not have and which can and should be mobilized for stabilisation. Among the incentives for the Private Sector are increased security, reduced risks, peace, positive image and publicity.

Private Sector and Social Investment

Social Investment means that businesses invest in local social projects. If the Private Sector successfully manages to contribute to the social and economic development of a particular place, they are investing in their own security in terms of harmonious relationships with host communities, and by limiting the costs imposed on operations by underdeveloped and/or conflict contexts. Social investments have been used by the private sector and other business concerns as an effective tool in operational contexts that are just emerging from of conflict where local governance and service delivery are poor, the communities are most directly impacted by a company's investment experience with some tangible benefits.

Conflict Sensitive Business Practice: Guidance for Extractive Industries

Assist new entrepreneurs among which many are the beneficiaries of DDR or other reintegration programmes, who need support in order to survive the competition of operating in the war-torn economies. They might need skills training in areas that are responding to the actual demands in local labour markets business training, support to develop business plans and start-up capital. In order to increase their chances of success they could receive longer term mentoring, access to chains of production, access to microfinance and other Business Development Services (BDS).

Business mentoring and microfinance

Reintegration programmes focus on the employability of demobilised combatants through skills training, business training and apprenticeships. However, not enough has been done to ensure that the graduates become successful business people. Insufficient efforts have been made to create an enabling environment for economic reintegration and the linkages required with other actors, such as microfinance providers, are too limited to make a significant difference. The challenges relate to linkages with the private sector for follow-up to new businesses, linkages with the job market and investments to boost local economies. Young entrepreneurs that receive a start-up capital (grant) need at least two years of monitoring and mentoring so that their businesses can compete and grow and they will gradually become potential clients for micro-finance institutions.

Case Study: Impact evaluation of the UNICEF child reintegration programme in Liberia

Support existing entrepreneurs. They are seriously harmed by conflict through loss of assets, access to resources, workers and the effects of “brain drain” of senior staff. One of the immediate interventions of PSD in stabilisation contexts is therefore to minimise the devastating effect of the conflict on the private sector as a whole. Protection of assets of the existing businesses, provision of storage, security guards and trying to maintain control over natural resources must be done with highest priority. Secondly, it is crucial to assist businesses to restart their activities. Providing PS actors with contracts to produce or deliver services in direct relation to the stabilisation intervention is the better and most direct intervention. Care is required in the selection of contractors in terms of ethnic and power balances and gender equality, but also with regard to corruption. While the transformation of the informal economy into a formal, tax-paying economy is important for longer term economic growth and government revenues, this should not be done during stabilisation periods. Creating maximum amounts of jobs, formal or informal, is the most urgent challenge.

Facilitate access to Finance: In the prolonged low-intensity fighting that has characterised many African countries, for example, microfinance and other development interventions may contribute to political stability, because they help to bring conflict to a close by providing people with economic optimism.^{ix} Lack of access to finance is frequently cited as a major and severe constraint to business growth in developing countries, and this may be an even stronger factor in restricting business growth in stabilisation environments. Micro-finance is the form of financial services (grants, credit, savings, money transfer, leasing, insurance, remittances and currency exchange) targeted at low-income people and can be provided by a variety of formal, informal and semiformal institutional arrangements (community managed groups, NGOs, commercial banks, individual moneylenders and collectors). Subsidies (grants) might be the only realistic form of microfinance in the early stages of stabilisation. However, grants should be complemented or replaced (where possible) by encouraging business growth in order to allow the provision of financial services (such as credits) in a manner that is sustainable in the long term. Sequencing of microfinance interventions and choosing the appropriate mechanism, e.g., grants or credits are crucial and should be given with the view to creating a longer-term sustainable micro-finance culture.

In the absence of a functioning banking and micro-finance system, as is the case in many stabilisation contexts, innovative approaches must be invented and tested in pilot projects such as the possibility of remittances transferred by SIM cards. Also, using traditional saving and credit systems, for example among market women or “Tontines” and “SuSus” in the communities is worth exploring. However, if using existing traditional systems, it must be carefully examined as to whether the addition of resources to these saving and credit mechanism will not disturb the functioning system.

4. What can the private sector do for reintegration?^x

So far, there has been a tendency to underestimate how important the private sector can and should be in stabilisation processes. First of all, the private sector is among the primary beneficiaries of the reduction of violence, which enables it to restart or boost its activities.

For reintegration planners, it is crucial to recognise that it is the private sector that will employ and train the target group and will create an enabling environment for the new entrepreneurs to become successful. It is therefore essential to assess in detail what their exact role could be in a given country. The assessment should analyse areas where co-operation with the private sector can be productive. Some examples are outlined in the following paragraphs.

During Disarmament and Demobilisation: Existing businesses should be provided with contracts in relation to Disarmament and Demobilisation efforts, such as for the construction of demobilisation camps. In their contracts, specific conditions, such as provision of “on the job” training should be included. Employers should also be brought into the camps to explain to the combatants what expectations from employers they will have to meet if they wish to get civilian jobs.

Immediate Short-Term Reintegration Options: Ex-combatants, as well as refugees, IDPs and community members, can be involved in public infrastructure works such as reconstruction of schools, water systems, hospitals, roads, de-mining, burial efforts, garbage collection, etc. These projects benefit the people who are to be reintegrated, as well as the overall population. Since they are highly visible, they may improve the image of the target group among the public and may become a first step towards their reintegration, especially if other members of the community are included in the work force. Small contractors will hire the target group to undertake these jobs. If such reintegration options are well-designed, they may create many jobs not only in the short but also in the long-term and the number of jobs increases if the initiative relies predominantly on workers (labour-intensive) rather than on machines and technology (capital-intensive). Existing contractors should be trained and used as such, while some skilled ex-combatants/refugees/IDPs can also become contractors themselves.

Apprenticeships: Apprenticeships have proven an effective form of vocational training. An apprenticeship will, in principle, be unpaid work since it forms part of the training process. One big advantage of apprenticeships is that the trainee might subsequently be offered a job. Existing businesses should be boosted to increase the number of apprentices they can take on. This can be done by contracting the potential Master to produce materials for the reintegration programme (such as toolkits, assets for the Demobilisation camp, furniture for refugee camps, reconstruction of a building or road, furniture for schools etc.) that will boost his or her business. Apprenticeship programmes should reflect the local tradition of apprenticeships in the country as far as is possible, to ensure sustainability. No direct payments should therefore be made to the masters.

Combining Apprenticeships with Formal Education

In order to successfully reintegrate demobilised youth and children, the Liberian child DDR programme created strong linkages to the Private Sector in terms of placing demobilised youth in their workshops as apprentices. The combination of training, apprenticeships and evening schools is a new **major achievement** that should inform other child and youth DDR programmes. Relatively high percentages of apprentices remained with their masters to do some self-employed work in their workshops, combined with school. Combining education and skills training seems very effective, it keeps them occupied, provides immediate income, provides a large network of new friends and gears their hopes to a better future as they are progressing in school.

Case Study: Mid-term Impact Evaluation of the Reintegration Programme of Children Associated With Fighting Forces (CAFF) in Liberia

Mentoring and chains of production: One of the important points in PSD is to work towards diversification. This requires versatile support to small businesses and trade, taking into accounts the various needs and requirements of people and groups who are starting or restarting their economic activities in the private sector. It should be emphasized that a new business needs extensive support to avoid failure of the initiative due to inexperience, attitude and competition. Existing business people should be contracted to provide BDS services to the new entrepreneurs. Chains of production should be assessed to identify whether and how the new businesses can be linked to existing enterprises in their chains of production. This will guarantee a certain level of productivity and ensure that products are made that are actually in demand.

The importance of creating an environment of economic expansion, employment growth and good governance is recognized but hardly ever put into action, as it demands greater funding and efforts that go beyond the already-expensive DDR programmes. Economic QIPs can lay the ground for this. It depends on the level of pre-war economic activities how much is needed, and also on the political interest of the donors how much is possible.^{xi}

5. Good practice principles

Ensure National Ownership

Promote social dialogue among governments, the security sector, civil society, the private sector and international humanitarian and development actors to sensitise them about their role and responsibilities for economic initiatives and long-term sustainability. The recent UN policy paper on post conflict economic recovery^{xii} provides a useful starting point for improving economic recovery programming in a stabilisation environment. The Stabilisation Unit advocates an integrated approach in economic initiatives as a part of the stabilisation plan, addressing national, provincial and local economic development in parallel. The following actors are crucial for economic initiatives:

National government: Ultimately economic progress depends on the host government's willingness to co-operate with stabilisation agencies and complete a series of complex reforms.

While there may be a lead government agency for economic recovery (e.g. ministry of commerce, labour etc.), there will typically be multiple agencies with an interest in economic issues at a national level (e.g. ministries of agriculture, mines, education, gender, natural resources etc). Achieving buy-in will necessarily involve all of these agencies. However, the government's ability to participate in the design and manage the delivery of economic initiatives might still be limited in the stabilisation phase by capacity and competing priorities. Nevertheless, international agencies must engage with the government to build its capacity and reinforce its legitimacy. In addition, government policies and practices can actually be obstacles for economic initiatives. These hurdles must be identified, discussed and solved at the earliest time.

Provincial government: Provincial and local government is likely to have a significant role to play for two main reasons: 1) Uneven progress in stabilisation may create opportunities in a particular province that do not exist elsewhere; and 2) The reach of central government is often reduced in a conflict environment as a result of continuing insecurity, poor infrastructure, uneven development, conflicting priorities and a legacy of the conflict.

The private sector: The most important stakeholders, actors and beneficiaries of economic initiatives must be the private sector actors. Early engagement with economic actors at national, provincial and local levels must be guaranteed from the very beginning. Realise that the private sector has its own market dynamics and try to support this.

NGOs: In the stabilisation context, NGOs are often the only actors at a local level. Local NGOs may have a better understanding of the realities and potentials of the local economy and can provide a capacity resource for delivering economic initiatives. International NGOs should support the national civil society to perform its tasks effectively, and should not be supported if they are in competition with national NGOs. However, NGOs should not be allowed to overcrowd the private sector, which are the main partner and stakeholder in economic initiatives.

International agencies and donors: The role of international agencies in stabilisation environments is focused stabilisation and preventing the recurrence of conflict. In the context of economic initiatives this means combining oversight of local interventions designed to bring tangible benefits at a community level with macro-scale business enabling environment reform. It is the responsibility of the international agencies to ensure that national capacities at all levels are strengthened to take ownership as soon as possible.

It is crucial that donor coordination and coordination of UN agencies is effective in economic initiatives. As soon as the situation allows, Government must be assisted to make a roadmap for early economic recovery, to which all international organisations and donors can then contribute.

Regional Actors: Stronger political, economic and technical ties with neighbouring countries can be a key driver for growth and stability given economic success will rely on cross border trade and regional integration.

Military agencies: As well as providing security and building the capacity of the host state security forces, the military can play a major role in delivering/supporting delivery of economic QIPs.

The military has access to areas where international agencies are unable to operate due to security concerns. Successful economic QIPs will serve military purposes in hostile environments such as gaining the trust and loyalty of the population required to patrol and access to information, but will also (if planned as such) lay the ground for economic recovery, PSD and reintegration. Encourage active participation and reinforce capacities of local contractors and communities so that they themselves become development agents who are responsible for the development of their living and working environment. Voice and representation of all groups must be encouraged.

Improve Civil Military collaboration

Integrate military and civilians in design and delivery of economic recovery interventions in hostile areas. The military should include civilians in the design of QIPs in order to ensure that local interventions have immediate positive impact, such as winning consent and building trust, but also contribute to longer term economic recovery and ensure continuity after change of battalion. Early interventions should be appropriate to local needs and cultural specifics and supportive of longer-term economic recovery efforts. For example, priorities for infrastructure rehabilitation should be established at a local level, but reconciled with national plans. Furthermore, QIPs should be appropriate to the economic potential and limitations of the specific location;

Engage with and reduce risks and costs for private sector actors

The Investment Climate Assessment carried out for Afghanistan found that access to finance (a reflection of the high risk environment) is cited as a major or severe constraint to business by more than 50% of businesses surveyed. Access to electricity is cited by 64%.^{xiii} Failing to address the costs of doing business not only impedes economic recovery, but further weakens the competitiveness of the economy and thereby limits the potential for job creation, which is a core element of stabilisation.

Private sector development, job creation and economic recovery cut across many sectors. It is therefore crucial that all actors in the stabilisation contexts apply economic sensitivity in order to boost economies and create a maximum amount of temporary and lasting jobs in all interventions. Local firms must be subcontracted as this has more lasting effects than direct hiring of workers by military or NGOs.

Use an area-based approach.

An integrated and comprehensive economic recovery approach can improve local security, create job opportunities, develop local facilities and reduce poverty. An area-based approach, with particular attention to the group of ex-combatants, is in line with the concern for sustainability. Design and implement economic QIPs and actively involve the private sector in the implementation of QIPs. Quick Impact Programmes have enormous potential to boost local economies. Improve the relations between ethnic, cultural, religious or social groups and men and women through Local Economic Recovery interventions.

Collect labour market information

The planning, design and delivery of economic initiatives that respond to the profiles of population and the demands of the labour market has proven complex. The volatile environment, lack of comprehensive and reliable labour market information and the weak capacity of labour market institutions provide further challenges to the successful design and implementation of economic initiatives. Economic relations in and between communities and local economies are complex and change significantly during armed conflict. The division of labour often shifts as people change their livelihoods and constantly adapt to the rapidly changing situation. It is crucial to know the socio-economic profiles and coping mechanisms of the communities, and to identify interventions which have the potential to boost local economies and improve social cohesion. QIPs and middle term economic interventions must be based on these local realities and time must be invested to collect the information.

Restore human capital

Conflict causes human capital deficit and change, such as brain drain, death or disability caused by conflict or related causes such as prevalence of HIV AIDS etc. In addition, due to the closure of schools, training institutions and work experience opportunities makes low literacy and skills levels another defining characteristic of stabilisation contexts, which directly impacts on economic recovery. The existing vocational training system often does not respond to the demands in the (changed) labour market. Based upon the collected labour market data, courses should be identified that are in real demand in the local economies. Mobilisation of the diasporas to return, temporally as resource persons or definite in attractive jobs should be encouraged. When working towards improving the employability of people in stabilisation contexts it is of crucial importance to empower girls and women to fully benefit from the new opportunities created.

Ensure services in place

It is crucial to understand that the large majority of people will end up as entrepreneurs, as salaried jobs normally are rarely available during the stabilization period. Therefore the availability of good quality services to assist those starting businesses is one of the most crucial areas. These services include skills training, business training, business support services, micro-finance, business mentoring etc. If such services are not available in sufficient quantities, funding is required to (re)establish them as soon as possible. Effective planning includes establishing realistic timeframes which can ensure that the necessary services are in place at the point when they are most needed. For example, one of the biggest failures of DDR programmes is that the required services are not in place when (DD)R starts.

6. Traps to avoid

Establishing parallel structures: Typically, public and private sector institutions in post-conflict environment are dysfunctional. There is an understandable desire by development agencies to improve functionality by either creating new institutions to fill gaps (e.g. Afghanistan Investment Support Agency, AISA, in Afghanistan), or fulfil a mandate where an existing institution is failing (e.g. Afghan International Chamber of Commerce, AICC).

While there may be circumstances where this approach is justified, the danger is that the new institution is unsustainable (AICC) or sustainability is achieved in a way that is counter-productive (AISA)^{xiv}. Priorities in economic initiatives during stabilisation should be to strengthen existing institutions wherever this is possible, and to ensure that any new institution plays a role that is complementary and becomes part of the national structure.

Focusing on international investment: Domestic investment always outweighs international investment, especially in a stabilisation environment. While international investment can grab the headlines, economic initiatives need to be based on building the domestic private sector^{xv}. In Afghanistan, for example, considerable resources were put into trying to attract Heidelberg Cement to invest in the country and substantial effort was put into a failed attempt to attract an American food processing company. AISA held investment road shows in locations such as Brazil; which may have been an unlikely investor^{xvi}. Similar resources could have been used more effectively to assist domestic private sector development. In fact, investments from the Diaspora are often the first and largest foreign investments that come into the country. Strategies to further encourage Diaspora investments should be promoted.

Early privatisation: There is a temptation to rush into privatisation in the early stages of stabilisation and economic recovery. This orthodox approach however needs to be made context-specific and take account of the numerous reasons why early privatisation could damage economic recovery:

Privatisation in Iraq

In post war Iraq the Coalition Provisional Authority (CPA) expended considerable time, resource and political capital pursuing a high profile policy towards rapidly privatising Iraqi State Owned Enterprises (SOEs). While undoubtedly sensible economic policy in the medium to long term, in the year or so the CPA was in charge this proved to be effort and political capital ill spent and a distraction from other more pressing priorities. In practice privatisation of SOEs was practically impossible in the short term - even if the political will existed - and only likely to be achievable in the medium to long-term.

The CPA had little knowledge or information about the Iraqi SOEs (even the number of them was under dispute) nor the resource to collect or analyse this information. Many of them had been damaged during the looting following the conflict and many were not functioning. Given the centrally planned economic structures in place it was difficult to discern whether enterprises were economically viable or not let alone meaningfully value them. In a poor and deteriorating security environment there was little external appetite for investing in former Iraqi SOEs and it was unlikely that it would be possible to privatise them at a worthwhile price. The institutional framework required for privatisation was not in place nor likely to be within a time frame to allow for early privatisation. Talk of privatisation played into the hands of Iraqi and International Community critics of the CPA, in particular arguments that the coalition's motivations were not as stated but centred on control of resources and stripping of Iraqi state assets. Issues over the legality of the occupying powers pursuing such a policy generated significant negative press and internal - time consuming - debate within the coalition. In fact, there was little, if any, political support from Iraqi political elites, the managers and employees of the SOEs themselves or the broader Iraqi population for such a policy.

Stabilisation Unit- experience of Treasury Iraq

Sequencing privatisation is crucial. It is essential to assess the pre-conflict economy and in some instances it might be better to support state-owned enterprises than to move to privatisation.

Championing sectors: It is common for economic recovery programmes to seek to identify sectors of the economy which can be championed in order to deliver quick wins. This has to be approached very carefully and with sensitivity to the realities of the investment/business environment and the true potential of each sector. There is no point promoting a sector which stands no chance of success (e.g. because of much more established competitors). Generally speaking, the local economy will grow at a rate and in a direction as the opportunity for it to do so is created. Therefore, efforts are much better spent creating opportunity for growth than trying to manage it. In general, diversification has proven more successful and sustainable than putting all efforts on one or two sectors.

Illegal economy: In the context of weak state and inadequate law-enforcement mechanisms, the transition from illegal to legal needs to be built on creating a competitive advantage to operating in the legal economy, combined with enforcement measures to stop illegal activities. This is where economic initiatives, DDR, SSR and Military law enforcement needs to be implemented simultaneously and in coordination. It should also address the structural reasons for widespread association with armed groups.

There is also a clear link between informal and to a lesser extent formal financial services and the illegal economy - e.g. the link between the hawala system and the opium economy in Afghanistan. Tackling this linkage without undermining the licit financial services sector is a major challenge. The private sector actors are by the nature of their job largely opportunistic and it remains difficult to really be successful in transforming the war economy into a peace economy during stabilisation.

Roles of public and private sector: There is a clear danger that the public sector in the form of government, international agencies and/or the military can actually crowd out private sector growth. This can happen in two ways, directly by doing what the private sector could be doing, and indirectly by competing for scarce resources. This is especially true at a local level, where international agencies and military may take it upon themselves to manage infrastructure rehabilitation rather than employing a local business to do the work for them, or by work schemes that can drive up wage expectations and the costs faced by local businesses. To avoid this happening, the public sector should always seek to work with private sector partners where possible and only become directly involved in delivering services/employment as a last resort. The military is advised that when hiring workforces, they do so under the direction of a local contractor, even if the design and implementation is, in fact, directly done through the military for security and other reasons.

'Do no harm' in economic initiatives: External actors must take particular care to identify areas where the economic initiatives could damage the long-term sustainability and viability of the local economy and suggest ways to avoid doing so. Examples of areas where economic recovery projects can 'do harm' to the community/country in question would be:

- Creating artificially high wages in one sector and thus drawing skilled labourers away from important sectors e.g. doctors stop practising medicine because wages are higher in construction work
- Setting remuneration on subsidised employment schemes too high for the local ministry of labour to sustain the budget when international assistance is phased out
- Creating excessive resentment towards targeted beneficiaries which makes it even more difficult for them to integrate into the community
- Reversing the progress made towards gender equality by female ex-combatants by assisting them to find only low-skilled and low-status jobs.

In addition, 3 dilemmas must be addressed and monitored between:

- Lack of Labour Market Information and the pressure to deliver
- Lack of access to remote and hostile areas and implementing only in safer areas, through which inequalities and conflict dynamics can be reinforced
- Promoting gender equality in economic initiatives while respecting local culture and context.

Investment risk and cost of doing business: Particularly high levels of investment risk and high costs of doing business characterise conflict economies, reducing economic growth and increasing the risk of further conflict.

The level of risk impacts the farmer (disincentive to plant orchards or build up livestock) and small businessman (disincentive to invest in productive assets) just as much as it does the larger firm. The high cost of doing business, whether in the form of excessive bureaucracy or poor/damaged infrastructure, impacts the small businessman even more than it does the larger business because small businesses lack the resources to deal with bureaucracy or the economies of scale to absorb the costs of providing their own infrastructure e.g. generators. While a start must be made during stabilisation to reduce these risks and costs, there are no quick fixes.

Counteracting discrimination and exclusion: It is important to recognize that the marginalisation of certain areas or social groups can be one of the root causes of armed conflict. Political leaders or warlords exploit existing feelings of injustice for their mobilization efforts. Programmes should be sensitive to these exclusion mechanisms. This is especially important in stabilisation contexts where goods, jobs and services are scarce and where socio-economic dynamics are characterized by the exclusion of certain groups. The end of a conflict is also a fertile opportunity to affect more radical economic and social reforms that address some of the root causes of the conflict. Policies to (re)build labour market governance can, for instance, play a socially healing role by including sound labour legislation that provides for the equitable treatment of workers.^{xvii}

Resources and further information

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END NOTES

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ⁱⁱ ILO defines decent work as that which "sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men." <http://www.ilo.org/global/Themes/Decentwork/lang-en/index.htm>

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^{xiv} AICC (funded by USAID) failed to achieve financial sustainability during the 3 year period of donor support and is now being combined with the existing National Chamber of Commerce. AISA has achieved sustainability by imposing an additional layer of investment licensing on the private sector.

^{xv} UNDP "Unleashing Entrepreneurship"

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For more detailed information, guidance and deployment assistance contact:

**Coordinator economic initiatives in stabilisation: Senior Infrastructure and Economic Recovery Adviser,
Stabilisation Unit,**

Currently Peter Fernandes Cardy p-fernandescardy@stabilisationunit.gov.uk