PRIVATE SECTOR DEVELOPMENT IN POST-CONFLICT COUNTRIES

A REVIEW OF CURRENT LITERATURE AND PRACTICE

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DCED

The Donor Committee for Enterprise Development

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Editor: Jim Tanburn

Foreword

Until recently, private sector development (PSD) was rarely the focus of development work in post-conflict situations. However, experience has shown that private sector activity continues even in the face of conflict - changing shape and direction, but remaining resilient to systemic shocks. The private sector is therefore a powerful and adaptable vehicle for reconstruction and regeneration in even the most difficult of situations.

This Review discusses the characteristics of the post-conflict private sector, and the ways in which the development community can engage with it. It gives an overview of current approaches and experiences across most agencies active in the field; our thanks to all those who have already sent us information and documents. By comparing different perspectives, and considering opportunities for integrating approaches, the Review aims to appeal to a wide audience, including PSD professionals, peacebuilding and conflict specialists, and policymakers - both in the field and at headquarters. It will also be of value to researchers and others seeking a concise summary of current thinking.

Hyperlinks and references are provided, for those seeking further detail; the DCED Secretariat is also available for follow-up - and indeed as a focal point for the other work of the DCED, for example on reform of the business environment, measurement of results in more standard formats, and country-level donor coordination.

This Review also highlights where there are gaps in current understanding, exploring the debates surrounding good practice, and asking the difficult questions which remain unanswered. It therefore provides the basis for further debate of these questions, within the Donor Committee for Enterprise Development (DCED) and elsewhere.

It has been written by Dr. Naoise Mac Sweeney of the DCED Secretariat, drawing on documentation published by member agencies and others, email exchanges, and meetings; a Steering Group, including staff of DFID, the Dutch Ministry of Foreign Affairs, GTZ, IFC, ILO, Sida, UNIDO and USAID, has provided frequent inputs and helpful advice. However, formal approval for this Review has not been sought from DCED member agencies, and it does not necessarily represent the views of each member agency. This has been done so that it may be published as quickly as possible in the interests of information-sharing.

This Review provided a major input to the Committee's Expert Meeting in September 2008 in Berlin - which itself was intended as the first step towards a larger process of defining good practice on a multi-agency basis in 2009-2010. The Report of the Expert Meeting is also now available.

We would particularly like to thank the Swiss Agency for Development and Cooperation (SDC) for co-financing the preparation of this Review, in partnership with the DCED.

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Executive Summary

It is now widely recognised that private sector development (PSD) has a crucial role to play in post-conflict, and other conflict-affected, situations. The economic aspects of conflicts have often been overlooked, and previous approaches to post-conflict intervention have included only very limited PSD programming. The situation is already changing however, and this Review offers a comprehensive stock-take of current literature and practice in the field of post-conflict PSD; identifying areas where there is agreement, and other issues where further debate and research are still required.

While the importance of post-conflict PSD is now generally accepted, there is still some uncertainty as to what distinguishes post-conflict PSD from PSD in other situations, and some disagreement over how post-conflict PSD should be carried out. This Review aims to provide an accessible introduction to the subject, considering these fundamental questions, and presenting an overview of the current literature and practice. In doing so, this Review contributes to the development of a common language and vocabulary for future discussions on the subject. This Review also seeks to tease out the differences in approach between donor organisations, and to highlight areas of both consensus and disagreement.

It is now widely recognised that PSD has an important role to play in post-conflict contexts (Chapter 1). However, while the value of post-conflict PSD is now generally accepted, the relative importance of PSD in relation to other forms of intervention is on less firm ground. Relief work, security, and nationbuilding are all vital areas for donor activity, and have sometimes been prioritised over PSD. In contrast, it is argued here that PSD should not be a separate and isolated form of programming, but rather that PSD is most effective when integrated into other forms of intervention as well.

Post-conflict environments present unique challenges and opportunities for PSD, and Chapter 2 of this Review considers how these challenges and opportunities may be understood more fully. Programming should take into account the common characteristics of post-conflict situations, as well as the nature of the post-conflict private sector. However, programming should also be shaped by the specific nature of each individual post-conflict context. It is generally agreed that conflict sensitivity, and the use of conflict assessments, are crucial when designing PSD interventions. However, there is less certainty as to what type of assessment should be used, and over what features of the post-conflict environment should be most closely considered. To date, different agencies have developed different assessment methodologies, and there is scope in the future for a more standardised approach to assessment.

Another point of consensus is the importance of engaging with a wide range of post-conflict stakeholders and partners (Chapter 3). The field of post-conflict PSD spans disciplinary boundaries, and brings together a diverse set of professionals. There will also be a wide range of stakeholders in any post-conflict situation. Different political factions or social groups will need to be considered, as will state actors, actors from the local and international private sector, displaced populations, and other conflict-affected groups. To ensure conflict-sensitive and effective PSD programming, co-operation and co-ordination are essential. This is important, both between the different parts of the international community, and also beyond it. It is important to engage with groups not traditionally considered to be appropriate development partners. The third chapter explores the issue of working with this broad range of actors and stakeholders, and considers the sometimes difficult practicalities of doing so.

Most would agree that post-conflict PSD needs to employ a wide range of different programming options to address the development of the private sector at different levels (Chapter 4). However, there is some disagreement over which of these should be prioritised. The approach adopted towards post-conflict PSD therefore varies between donors. The menu of potential interventions is outlined, categorised by the broad approach to which they belong. While some donors favour programming which targets specific groups and individuals for direct assistance, others focus on reforming market structures and making broader systemic changes. Others again prioritise the investment climate, directing their efforts towards financial institutions and macroeconomics. Although most donors engage in a combination of these approaches, tailored to the specific situation at hand, these different 'schools of development' are nonetheless evident both in the current literature and on the ground.

The value of these different approaches would be better understood if the results of post-conflict PSD programming could be assessed more accurately. To date, there has been little work done on assessing the impact of programming in post-conflict situations. Chapter 5 considers the work which has already been done, mostly in the monitoring and evaluation of peacebuilding and conflict prevention programming. However, given that post-conflict PSD is still a new field, assessment methodologies which consider both PSD and conflict impacts have yet to be developed. There is therefore much potential for work in this area.

This Review aims to provide an accessible introduction to the subject of post-conflict PSD, presenting a critical overview of the different schools of thought and practical approaches, and identifying outstanding issues for future research and discussion. In addition, by offering a broad view over the current situation, this Review aims to contribute to agreement around a common language and vocabulary for future inter-disciplinary discussions on the subject.

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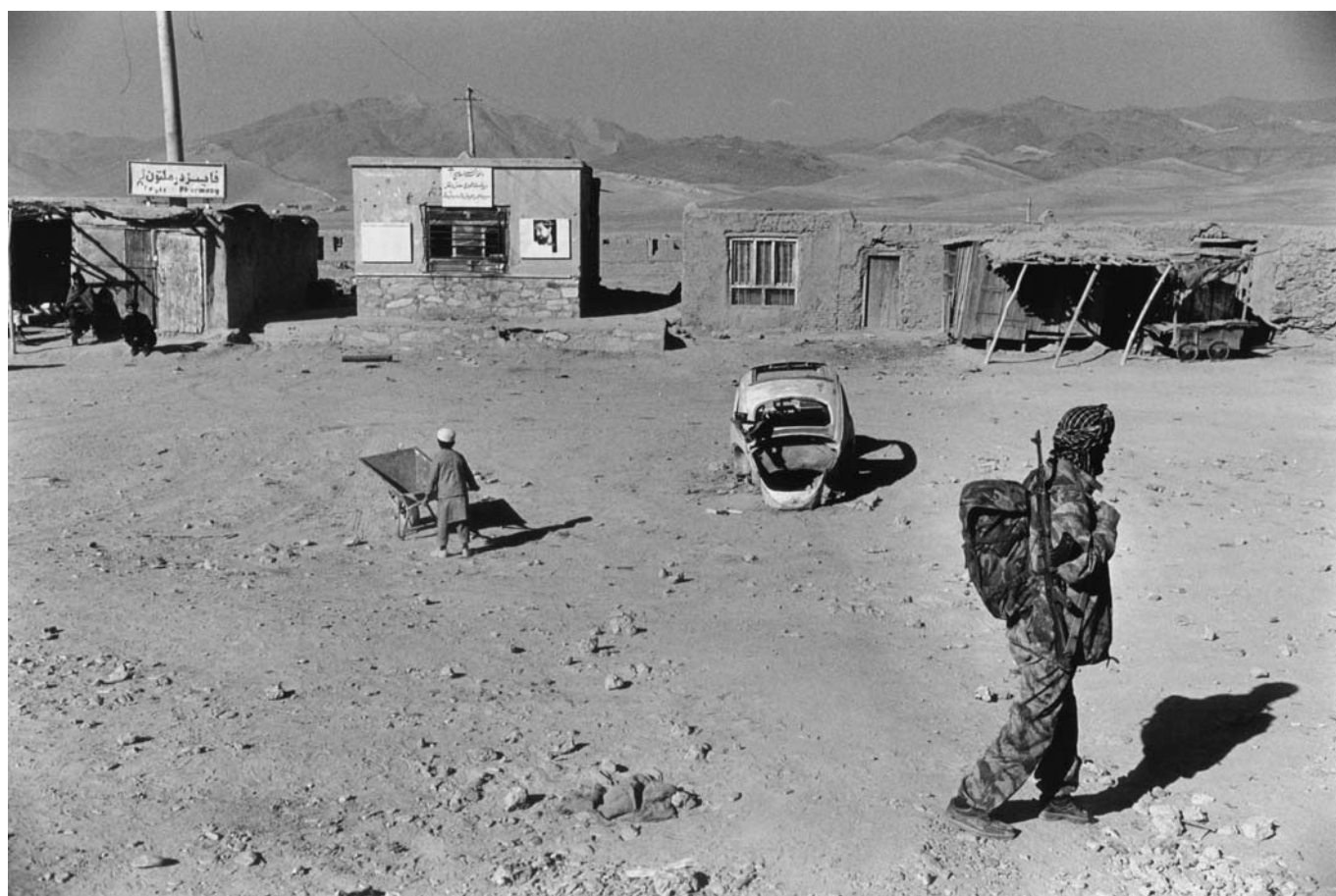
Chapter 1: Post-Conflict PSD
Introducing the key issues

1.1 Introduction

War shatters lives. In the early twenty-first century, the problem of armed conflict is still a pressing one. News reports remind us daily that there are many regions still suffering from crippling levels of violence, and thousands of people caught up in the horrors of war.[1] Many countries are caught in a seemingly inescapable 'conflict trap'; where the social, political and economic consequences of a conflict act to perpetuate the violence.[2] War sustains itself, and calling an end to a conflict is always fraught with difficulty. Even when peace settlements are successfully negotiated, the likelihood of a country returning to violent conflict within a decade of a failed peace agreement is high; estimates vary between forty[3] and fifty[4] percent. An important contributing factor of relapse into war are economic incentives for violent conflict.

War is a major cause of income poverty, disrupting economic activity and destroying livelihoods. Equally however, poverty and inequality help to cause and maintain conflicts, as different groups fight for control over resources or seek to redress socio-economic inequalities through violence.[5] In war, the nature of economic activity changes dramatically, concentrating wealth in a few powerful hands – a situation which itself makes violent conflict more likely. Considering war economies is therefore an important way of addressing the

problem of violent conflict. The international community is increasingly recognising this, and there have been many new policy and programme initiatives recently focusing on post-conflict economic development (Box 1).

Private sector development (PSD) has an important role to play in this expanding field of post-conflict economic development. The private sector drives economic growth, and is an essential factor for sustainable poverty reduction. In addition, private sector activity continues even in the face of conflict, functioning at an informal level when social and political institutions have broken down. Post-conflict PSD is therefore an area that the international community cannot afford to ignore, and this is now becoming more widely recognised in new policy papers, practice guidelines, and research notes.[6]

This Review examines the various approaches which the DCED's member agencies and others are currently adopting towards post-conflict PSD. It considers the different schools of thought on the subject; identifying areas of general consensus, and highlighting issues still under debate. PSD in post-conflict contexts is markedly different from PSD under 'normal' situations, and there remains some discussion over what exactly post-conflict PSD *is*, and what it should be. This Review hopes to contribute to this debate.

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[1] Alex et al 2006; Barakat 2005; Brueck et al 2000, 2; Collier 2006 and 2007; Mierke 2006; USAID 2007.

[2] Collier et al 2003; Collier 2007, 17ff.

[3] USAID 2007, 5.

[4] Collier 2007, 34.

[5] Bagwitz et al 2008, 15ff; d'Epinay and Schnabel 2007, 4ff; Gündüz et al 2006, 3ff; MacDonald 2006, 3ff; Mierke 2006, 3ff; ROAN 2006.

[6] E.g.. Aaronson et al 2008; Bagwitz et al 2008; Banfield 2007; Collier 2006; Ersenkal and Wolf Fellow 2007; Guimond 2007; Gündüz and Klein 2008; Hudon and Seibel 2007; IFC/FIAS-GTZ-BMZ 2008; Naudé 2007; SEEP 2007; Shankelman 2007; Spilsbury and Byrne 2007; Stabilization Unit 2008a; USAID 2006; USAID 2007.

**Box 1.
Some specialist groups working on post-conflict
economic development**

Government Units:

- Austria: 'Development Gives Security' focus
- Canada: Stabilization and Reconstruction Task Force (START)
- Denmark: 'Security, Growth and Development Policy' Strategy
- France: Ministère Francaise des Affaires Étrangères, 'Conflict and Crisis Division'
- Germany: GTZ Theme on 'PEECE, Conflict and the Economy'
- The Netherlands: Peacebuilding and Stabilisation Unit (under construction, see homepage)
- Sweden: 'PSD and Conflict' Theme
- Switzerland: 'Conflict Prevention and Transformation' Theme
- UK: Stabilisation Unit and DFID's Conflict, Humanitarian and Security Department
- USA: USAID Conflict Management and Mitigation Unit
- USA: USAID Microlinks, 'Microenterprise Development and Conflict'

Multilateral Donors, Interagency Groups and Research Bodies:

- Clingendael Institute: Conflict Research Unit
- European Commission: Conflict Prevention and Post-Conflict Theme
- IDRC: Peace, Conflict and Development Initiative
- ILO: Crisis Response and Reconstruction Programme (Armed Conflict)
- International Alert
- LSE Crisis States Centre
- OECD/DAC: Conflict, Peace and Development Coordination
- Swisspeace: Business and Peace Theme
- UNDP: Bureau for Crisis Prevention and Recovery
- World Bank: Fragile and Conflict-Affected Countries

1.2 Why PSD?

Private sector development (PSD) is a broad field, unified only by its central goal of developing a productive, sustainable, and market-oriented private sector. It includes a wide range of programming options, including: the targeted services traditionally thought of as PSD which support individual entrepreneurs and firms; making systemic improvements to market or sectoral structures; and the reform of the business enabling environment and economic institutions (Box 2). All of these diverse forms of intervention have the same

fundamental aim – the alleviation of poverty through the development of a healthy and independent private sector.

This aim is of vital importance in post-conflict situations, because economic factors play such a central role in both starting and maintaining conflicts. In the short term, there must be some immediately tangible benefits of peace – a 'peace dividend'.[7] In the medium and long term, these benefits must continue; promoting stability and reconciliation between factions, and discouraging a return to violence.[8] Previous approaches to

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[7]   Mierke 2006, 8; UN 2008; USAID 2007, 11ff.

[8]   IFC/FIAS-GTZ-BMZ 2008; USAID 2007, 18ff.

peacebuilding and stabilisation have not focused on economic growth or PSD, and have met with limited success. PSD offers an alternative to these approaches, and has substantial potential for promoting both immediate stabilisation and sustained recovery. Currently, there is much valuable research being done to explore this potential, and this Review aims to provide a critical review of this work.

**Box 2.
Different types of PSD interventions**

- Targeted support for individuals, households, and specific enterprises
- Systemic support for markets or economic sectors
- Improvement of the business enabling environment
- Strengthening of economic structures

Addressing the economic factors of a conflict has not traditionally been a high priority in post-conflict situations. Where they have been addressed, donor organisations have often directed this work towards the public, rather than the private, sector. To date, both bilateral and multilateral funding has tended to be targeted at governments, and current aid structures are set up in a way to make this the easier path. In addition, it is argued that as public organisations themselves, development agencies are better equipped to understand other public bodies.[9]

There are also arguments specific to post-conflict environments as to why donor support should be directed towards the public, rather than the private, sector. As weakness of the central state is a feature of post-conflict situations (Chapter 2.1.2), it is clearly important to rebuild the authority, legitimacy, and practical capacity of the state. It is therefore sometimes argued that 'nation-building' should be the first priority for donors.[10] The promotion of the private sector in preference to the public may have serious repercussions for nationbuilding in a post-conflict context. It may undermine the authority of the government, and lead to the establishment of parallel systems and institutions.

However, the fact remains that post-conflict development which focuses on the public sector alone has not so far been successful in guaranteeing either immediate stabilisation or sustainable recovery. This is because it does not address the full range of economic factors involved in conflict. For this, PSD programming is essential.[11]

In a post-conflict situation, there are particular benefits of working with private-sector actors as well as the central state. Government structures are often weak in the aftermath of a conflict, and a post-conflict state may not be able to provide its citizens with essential services. The private sector may therefore be able to meet these needs if the state is unable to do so.[12] It can also meet needs where governments are unwilling to do so. It is likely that a post-conflict government will include parties to the conflict, and may only have partial public support due to factional politics. In such cases, corruption and bad governance are likely to be problems in addition to limited effective capacity. Within donor countries, concern has been growing over development funds being misused by recipients to finance wars and for personal gain.[13] Unfortunately, such misuses are more likely in post-conflict situations than other contexts. In these

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[9] Schwartz et al 2004, 1.

[10] Addison 2003; Anand 2005; Brinkerhoff 2007; Dobbins et al 2003, 167ff; Dobbins et al 2007; Drolet 2006, 1-2; OECD 2007; OECD/DAC 2007, 2-4; Wood 2006.

[11] Bagwitz et al 2008.

[12] Elliesen 2005; OECD/DAC 2007, 4; Schwartz et al 2004.

[13] Crilly 2008.

circumstances, the private sector offers an alternative avenue for economic development.[14]

But public and private sector development should not be thought of as mutually-exclusive alternatives. PSD does not have to be undertaken at the expense of nation-building, and it is possible to strengthen the private sector without undermining state control. For example, there are several options for PSD to integrate the public sector (Chapter 3.3). If PSD is carried out sensitively and in consultation with the state, it can actually help to work on state fragility, instead of merely around it. In addition, it is possible that if the international community is too much and too visibly involved in nation-building, this can itself be detrimental to state legitimacy and autonomy.[15]

PSD, when carried out sensitively and in conjunction with support for the public sector, has the potential to make a significant impact on post-conflict situations. However, this potential has remained largely untapped to date.

1.3 Why Post-Conflict Situations?

Development agencies are now working in post-conflict situations with increasing frequency. Until recently, many donors avoided working in such situations because they were considered to be too high risk, but recent studies have shown that it is possible to work in such contexts without sacrificing efficiency of funds.[16]

In addition, donor countries are increasingly bringing together development, diplomatic and defence efforts in order to achieve both security and development goals. This not only promotes security for developing countries, but also for donor nations themselves.[17]

Post-conflict situations present a unique set of challenges to the international community. They incorporate elements of fragile and crisis situations, but also introduce additional factors as well. Conflict affects people in ways that natural disasters do not, and weak institutions can not. Violence leaves its own particular scars on a society, in addition to but distinct from those present in other situations. Problems such as low state capacity and damaged infrastructure are features common to many fragile or crisis environments. However, none of these settings have the level of social fragmentation and the absence of trust which characterise a conflict-affected environment. Because of this, conflict-affected situations need to be treated separately, as a distinct category.[18]

Post-conflict situations are a particular subset of conflict-affected situations. A conflict-affected area can be in the midst of conflict, just emerging from conflict, or can even have a conflict relatively far back in its history, as long as that conflict continues to bear residual effects. The focus of this Review is more specific, and concentrates on areas, regions or countries during a particular time frame: from the official outbreak of peace which ends a conflict, through to the end of the first decade after this (Box 3). Research suggests that the first decade after the official agreement of peace is crucial, and that it is during this time that there is the highest chance of conflict being renewed.[19] If peace can be maintained for this first decade, the likelihood is that it will endure. The outbreak of peace is taken here to be the start of a peace process or a comprehensive ceasefire.

This working definition of a post-conflict situation leaves much to be desired, as there are many overlaps between the different stages of a conflict. Post-conflict environments are also necessarily conflict-prone, and many will also contain pockets of

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[14] Grosse-Kettler 2004.

[15] Schlichte 2007.

[16] Collier and Hoeffler 2002; OECD/DAC 2007, 2.

[17] Møller 2007; Stabilisation 2008; Stewart 2008.

[18] Barakat and Chard 2005, 173; Mierke 2006, 7ff; USAID 2007, 5.

[19] Collier 2007; Collier and Hoeffler 2002; Chand and Coffman 2008.

active conflict. In addition, there are several phases within the post-conflict period itself, which require a different set of responses from the international community. The immediate post-conflict phase, for example, requires quick-impact interventions and addressing urgent needs; while in the long term, sustainability and stability become much more important. Between these, a transitional phase has different characteristics once again.[20]

However, there are some basic features which characterise the post-conflict working environment. Firstly, some form of political authority is recognised by the existence of a peace process, even if this authority is contested or has limited practical influence. In addition, violence should not be at the level of open warfare, and should allow for development agencies and economic actors to function independently without debilitating security concerns. In post-conflict situations, the minimum requirements for security, independent activity, and political authority are met.

In addition, psychological factors also play a defining role. The official outbreak of peace and the commitment to a peace process are potent symbols. Even if the warring factions only agree to a ceasefire, this nontheless dramatically affects the wider social and psychological environment. There is therefore a powerful element at work in a post-conflict situation which can be capitalised on – hope.

1.4 Post-conflict PSD

PSD can potentially have a significant impact on post-conflict situations, if it is carried out sensitively and in a way which addresses the unique social, economic, and political characteristics of the particular environment. Assessing these characteristics and understanding this environment will be discussed in the following chapter.

Planning, carrying out, and assessing post-conflict PSD programming presents significant challenges to both PSD and conflict specialists alike, but also offers spectacular opportunities. Professionals from these different disciplines must work together to grasp these opportunities, and cope with the challenges. This collaboration must be built on a shared understanding of the potential for PSD in post-conflict situations, and a shared vocabulary describing the practicalities of it. This Review aims to start mapping out this common ground. The rewards of successful collaboration, and the costs of its failure, will be felt not only in conflict-affected countries across the globe, but also within donor countries themselves.

**Box 3.
Working Definition**

*The Post-Conflict Period
=
The first decade after
the outbreak of peace*

*(outbreak of peace: either the start of an
official peace process or a ceasefire)*

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[20]   SEEP 2008, 2; UN 2008.

Chapter 2: Understanding the Post-Conflict Situation
Mapping out the physical and theoretical terrain

2.1 Characteristics of the Post-Conflict Situation

Post-conflict environments present donors with a very particular context of action, and successful post-conflict PSD requires a good understanding of this context. Although they share many features with other fragile or crisis situations, post-conflict settings differ from these because of the legacy of violence. The trauma of violence, and the social fragmentation that it brings, shape all conflict-affected situations. However, the formal cessation of violence also brings specific consequences, and post-conflict situations differ from situations which are in the midst of open warfare, those which are conflict-prone, or those which suffer low levels of prolonged conflict.

There are therefore a number of distinctive features which distinguish post-conflict situations in particular (Box 4). Within the existing literature, many varying lists of these have already been compiled.[21] Post-conflict situations are characterised by particular economic, political, security, social and demographic features, all of which have an impact on the private sector. These features determine the shape and nature of the post-conflict private sector. Understanding these them is essential for post-conflict PSD.

This chapter also explains the value of conflict assessments and suggests how donors might go

about understanding the post-conflict environment to inform programming decisions.

2.1.1 Economic

Perhaps the most obvious economic characteristic of a post-conflict environments is loss of assets. This affects enterprises, making it harder for them to resume economic activity, but also affects a substantial proportion of the population, leading to a shrinkage in purchasing power and markets. This shrinkage contributes to market distortion.[22]

Balancing these markets and resuming normal economic activity can be difficult in post-conflict situations because of social fragmentation and a lack of trust. But added to these, there are also a number of practical barriers. Amongst these are the destabilisation of property rights, and the instability of land tenure due to population displacement and coercion.[23] If individuals and firms cannot be sure of their assets, there is little incentive or opportunity to build on them. Even if people try to do so, damage caused to physical infrastructure and communication technologies places limits on commerce, especially in areas where there may be residual problems like unexploded mines.[24] Macroeconomic problems, such as a weak currency and a lack of financial services, are also likely to stand in the way of resumed formal economic

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21   E.g. Bagwitz et al 2008, 15ff; Banfield and Tripathi 2006, 4; Brück et al 2000, 14; CGAP 2004; FIAS-GTZ 2008, 4; Goovaerts et al 2006, 6-9; MacDonald 2006, 7ff; Mierke 2006, 3ff; Mills and Fan 2006, 9ff; SEEP 2007, 15; UN 2008, 4ff; USAID

22   MacDonald 2006, 8; SEEP 2007; Saperstein and Campbell 2008.

23   Ansoms 2006; Brück 2003; Kibreab 2003.

24   Anand 2005; CGAP 2004, 1; MacDonald 2005; USAID 2007, 7.

Box 4.
Some characteristics of post-conflict situations

Economic

- Loss of assets
- Distorted markets
- Uncertainty of land tenure and other property rights
- Lack of physical infrastructure and poor communications
- Macroeconomic shocks
- Reduction in both foreign and local investment
- Sectoral shifts
- The presence of a war economy supported by parties with strong interests in it

Political and Security-Related

- State fragility - low legitimacy
- State fragility - low practical capacity
- State fragility - low human resources capacity
- Residual violence and lack of security
- Lack of a functioning judicial system

Social

- Tension between factions and groups
- Weak or disrupted social networks
- Fractured families and communities
- Low levels of trust
- Psychological trauma from violent experiences (including sexual violence)
- Vulnerability of conflict-affected individuals

Demographic

- High number of female-headed households and more women in the workforce
- High numbers of incapacitated, disabled, or otherwise injured individuals
- Increased levels of HIV/Aids as a result of sexual violence
- Population displacement, including both refugees and internally-displaced people (IDPs)
- High numbers of unemployed youth, in particular ex-combatants
- Low educational levels, including basic literacy and numeracy

activity.[25] All these factors undermine local investment, but also act to deter foreign trade and investment from returning to areas abandoned in wartime.[26]

Nonetheless, although economic structures and the formal economy are badly damaged by conflict, economic activity does not stop altogether. Informal economies thrive in conflict-affected contexts, and

[25] Banfield and Tripathi 2006, 4; MacDonald 2006. 7; USAID 2007, 5.

[26] Banfield and Tripathi 2006, 4; Mills 2006; Mills and Fan 2006.

the private sector evolves rather than disappears. The wartime economy operates in new and unregulated ways (see below). Sectoral shifts are likely to occur, with less activity in sectors requiring long-term investment, and more in areas promising quick gains. In addition, there may be a return to subsistence as opposed to market-driven livelihoods strategies.

Some sectors of the economy prosper in conflict situations, and these drive a qualitatively different type of economy from the pre-conflict economy. The war economy is often predatory, and profits can be made by exploiting an unstable and violent situation (Section 2.1.5).

2.1.2 Political and Security-Related

Conflict is inherently political, and post-conflict situations must be negotiated politically if the resumption of conflict is to be avoided. During a conflict, the authority of the central state is necessarily challenged. The government which emerges after a conflict will therefore suffer from reduced levels of authority, and is also likely to have varying levels of support amongst different groups and factions (Box 5). In some cases, the very legitimacy of the government or the state itself may not be widely supported. Factionalism and nepotism, which are common in post-conflict settings, will detract from any authority the state may have, as will corruption and a lack of transparency. The post-conflict state is therefore likely to be weak in terms of public support and ideological authority.

Post-conflict states are also likely to have a limited amount of practical capability. Governments will have tight budgets, due to disrupted revenues and the financial costs of waging war and providing security.[27] As well as financial constraints, post-conflict governments are likely to suffer from limited capacity in term of human resources and skilled personnel. This has severe repercussions on what such a government can practically accomplish.

From a practical as well as ideological perspective therefore, post-conflict governments may simply not be able to effect change, ensure security, and guarantee the provision of basic services.

There are many reasons why post-conflict states may be weak and lack capacity. However, any failure of the government to deliver security and basic services is likely to result in a further lack of confidence, resulting in a feedback loop of state (in-)capacity. Fragility is therefore a recurring feature of all post-conflict situations, and one which has important implications for the post-conflict private sector.[28]

Security-related issues also have an impact on the shape of the post-conflict private-sector. Due to its fragility, the post-conflict state is unlikely to be able to guarantee the complete rule of law – comprising basic security and a properly-functioning judicial system. If there are residual pockets of violence, or continuing security threats, these place major limits on the form that the private sector can take, and the kinds of activities it can engage in. Restrictions are also placed on private-sector activity by the judicial system.[29] Not only are property rights unclear in a post-conflict context, but there may not be clear channels of dispute resolution. Both of these are important to allow the private sector to grow and develop.

2.1.3 Social

But it is not just official structures which are weak in a post-conflict situation. Informal social structures are also often damaged. After a conflict, the fragmentation and factionalism which characterises politics is likely to pervade civil society also, and this has significant implications for economic activity. Conflict is essentially a form of social breakdown, and it plays on tensions between groups. Social divisions and hostility are still raw in the aftermath of violence, and different groups within society may not find it easy to engage with each other.

[27]   USAID 2007, 24ff.

[28]   Brinkerhoff 2006; Browne 2007; Carment et al 2007; USAID 2005.

[29]   Channell 2008.

Box 5.
Common problems faced by post-conflict governments

- **Reputational problems:** There may be low levels of legitimacy and trust, especially amongst factional groups who may have been involved in the conflict.
- **Practical problems:** Damaged infrastructure and communications may make it difficult to maintain control and to act effectively over the whole national territory.
- **Financial problems:** Government will face disrupted tax incomes, and large demands for spending. In addition, they may be burdened with debt from recent and continued military expenditures.
- **Capacity-related problems:** State structures are likely to be cumbersome and inefficient. There may be problems in recruiting able staff, and with corruption and a lack of transparency.
- **Security-related problems:** Residual violence may still be occurring, especially in outlying or inaccessible areas of the country.

As well as the tensions between groups, the disruption of normal social life also means that civil institutions and community solidarity may be weakened within groups.[30] Depending on the scale and nature of the violence, social networks may have been disrupted at several levels – between communities, within communities, and even within families. Rebuilding social networks is made harder by the psychological effects of conflict – including the low levels of trust between people, and the trauma suffered by many individuals.

2.1.4 Demographic

War trauma is most evident in the vulnerability of certain conflict-affected groups. Whilst the population as a whole will have suffered over the course of a conflict, there are some sections of society which will be more vulnerable than others. Women are often vulnerable in the aftermath of war, as many might be left without families or traditional support mechanisms. In addition, the high incidence of sexual violence has the twin effects of psychological trauma for the women concerned, and the risk of subsequent social exclusion.[31]

There will also be an increase in the number of other vulnerable individuals, such as orphaned children and the elderly. Such people might be alone due to the death or absence of family members, and unable to fend for themselves.[32]

But the increased number of vulnerable individuals is not the only demographic feature of post-conflict situations. There are also likely to be major changes in the social roles that women play.[33] Women often assume more economic responsibility in conflict-affected situations, and it is important that they are not sidelined in post-conflict development. As a result of the usually high mortality rate amongst men, women often form a larger section of the population than under normal conditions, and the proportion of female-headed households often increases.

In addition, there are particular public health concerns in the aftermath of violence. Many people may have been injured or disabled during the fighting, and this severely limits their ability to secure their livelihoods. In addition, diseases can spread quickly when there is limited access to clean water and fresh food. Finally, AIDS/HIV may be a

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[30] Barakat and Chard 2005, 177; CGAP 2004; Gasser et al 2004; Goovaerts et al 2006; Gündüz and Klein 2008; Parnell 2001.

[31] Jooma 2005; Koen 2006; UN 2008, 3.

[32] USAID 2005.

[33] Abdelnour and Branzei 2008; Jones 2005; 104ff; Koen 2006; USAID 2006, 17-21.

growing problem as a result of sexual violence.[34] Health issues such as these have a major influence on the labour market.

Moving beyond the level of the individual, conflict often leads to mass population displacement. In some areas, there may be depopulation, while in others there may be large numbers of resettled people. Depopulation is often worst in rural areas, which not only destabilises provincial security and social networks, but also disrupts agricultural production. It is crucial here to consider both internally-displaced people (IDPs) and refugees who had previously fled abroad. Such individuals face the challenges of resettlement and reintegration, but may also have certain skills and experiences which may enable their active engagement in the post-conflict private sector.[35] Non-traditional livelihoods strategies adopted in camps, for example, can bring entrepreneurial experience.

In the aftermath of a conflict, there are also high numbers of unemployed individuals. Although many of these may have been combatants during the conflict itself, non-combatants will also be looking for work. The sudden influx of workers into the labour market at the end of a conflict has ongoing repercussions, especially as many of these workers will be young, unskilled, and inexperienced. In addition, they may also be used to wieldingsubstantial power if they were once soldiers.[36]

2.1.5 The Post-Conflict Private Sector

Post-conflict situations therefore have their own specific economic, political, social, and demographic characteristics. These features determine the form and extent of the post-conflict private sector. This private sector has two central characteristics:

■ Informality
■ The strength of the predatory private sector

Informality is due to the disruption of social networks and formal structures during the conflict itself, which leads to a grey economy in most post-conflict situations.[37] Private-sector activity is often opportunistic and irregular, and lacks regulation or standardised systems of procedure (Chapter 3.5).

This informality may in some sectors be partly due to a decrease in the scale of economic activity, which may operate at household or local levels rather than provincial or regional ones. There are some aspects of formality which are positive, such as flexibility and adaptability, and this may lay the foundations for future development. However, this informality will eventually pose major problems from government revenue collection and successful regulation.[38]

However, post-conflict informality is also at least partially due to the importance of force and coercion during a conflict, which often means that economic assets are forcibly taken control of by conflict actors, and some economic sectors are 'captured' by factions or interest groups. Informality is both favourable to, and partly created by, the predatory private sector.

Some parts of the private sector can exploit conflict environments for their own benefit, and in doing so, become predatory rather than beneficial.[39] The predatory private sector can take many forms. Trafficking in illegal commodities, such as drugs, arms, or humans, can be very profitable and such illegal trading can flourish unchecked in a war

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[34] Koen 2006; USAID 2005, 5; Young et al 2005, 112.

[35] Abdelnour et al 2008; Hammond 1999 and 2004; ILO 2006; Kibreab 2003; Kondylis 2006; Nourse 2004.

[36] UN 2008, 3-4.

[37] Goovaerts 2006, 6-7; Masinde et al 2008.

[38] Gündüz et al 2006, 34

[39] d'Epinay and Schnabel 2007, 4; Mierke 2006, 12ff; Naudé 2007.

zone.[40] Another sector which often contributes to the war economy is the exploitation of natural resources. Resources such as oil, diamonds, or natural gas can be exploited for fast gains, and control over them can be a source of conflict.[41] The predatory private sector is not limited to illegal sectors and natural resources however – entrepreneurial activity in any sector can undermine peace if it is carried out in a way which strengthens horizontal inequalities. If the private sector deepens existing social divides and allows those with power to prey on the poor, it is predatory and will undermine a lasting peace.[42]

Strong predatory elements are often a feature of the post-conflict private sector, and these must be taken into consideration when planning PSD interventions. In all situations, PSD aims to encourage the development of the private sector's positive potential in pro-poor ways. However, in a post-conflict situation, it should therefore be remembered that PSD should also tackle its negative or predatory aspects (Box 6).

Post-conflict PSD therefore involves working with a private sector which is characterised by high levels of informality, and which suffers from the presence of predatory elements. Understanding the post-conflict private sector, and the way in which it differs to the private sector in other contexts, is crucial for successful PSD programming.

2.2 Conflict Sensitivity

2.2.1 Conflict Sensitive Interventions

Post-conflict situations therefore have their own particular characteristics in economic, political, social and demographic terms. These features shape the post-conflict private sector, but also govern the potential for post-conflict PSD programming and dictate the environment within which interventions are carried out. Post-conflict PSD must take the general characteristics of post-conflict situations into account, as well as the specific peculiarities of the individual post-conflict context. Conflict sensitivity is therefore essential.

'Conflict sensitivity' is a handy shorthand term for an overall approach to all conflict-affected environments, and essentially involves: being aware of the history of the political and social environment, identifying potential points of tension and hostility, and conducting intervention activities in a way which is sensitive to these.[43] Crucially, conflict sensitivity enshrines the principle of pragmatic flexibility when it comes to post-conflict and other conflict-affected situations.

If a course of action has negative impact on peacebuilding and reconciliation, it must be altered or stopped altogether, and mechanisms must be put in place both for assessing impacts and changing courses of action (Chapter 5). Not only development agencies, but also multinational businesses and international investors, are also being encouraged to

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Box 6.
The twin focuses of post-conflict PSD

1.   Support the positive, pro-poor aspects of the post-conflict private sector

2.   Tackle the negative, predatory aspects of the post-conflict private sector

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[40]   Alusala 2005; Bagwitz et al 2008, 88; Collier 2003, 42; Mierke 2006, 18.

[41]   Banfield and Champain 2004; Goredema 2002; McVay 2005, 11ff; Shankelman 2007.

[42]   Kanbur 2007; Gündüz et al 2006, 3ff ; Naudé 2007.

[43]   AFD 2007, 26; Bagwitz et al 2008, 26ff; Gündüz and Klein 2008; IA 2004; SaferWorld 2004; UN 2008, 35.
       See also: www.conflictsensitivity.org

Box 7.
Research in Conflict-Prone Situations

The Zimbabwe Multi-Donor Trust Fund

At the time of writing, Zimbabwe is a fragile state in the midst of a serious political upheaval. Political factions and ethnic divisions run deep in Zimbabwean society, exacerbated by a collapsed economy and a background of constant political violence. In such situations, all donors must face the question of how to plan for what comes next, and how to anticipate the social and economic needs of the immediate future. Coordinated donor action on research is especially helpful in such situations. The Zimbabwe Multi-Donor Trust Fund was established in February 2008 as a joint research fund, with CIDA, DFID, the Dutch MFA, the EU, NORAD, USAID and the World Bank its main donors. The Fund is mandated to finance: studies, surveys, study tours/knowledge exchanges, pilots, workshops, and publications, although the nature of the projects financed at the moment may necessarily be more research-based than practical given the current situation. One of the main aims of the Fund is to produce policy options and recommendations which may be implemented by a government disposed towards reform. It is envisaged that in the future, the MDTF recommendations may form the basis for stakeholder meetings, which will bring together various experts and parties to come to a broad consensus on implementation and policy directions.

References: MDTF 2008.

Additional comments from: Amy Tolhill-Stull (USAID Harare)

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adopt conflict sensitive approaches to their activities in post-conflict countries.[44]

Being conflict sensitive requires more than just 'doing no harm' by avoiding exacerbating conflict.[45] Ensuring that policies and operations are sensitive to conflict requires analysing the conflict to gain a detailed understanding of the situation, and ensuring action is informed by that analysis.

Broadly three different approaches to conflict can be identified, each with its own set of assumptions and associated strategies:

■ **Working around conflict**: treating conflict as an impediment or negative externality that is to be avoided.
■ **Working in conflict**: recognising the links between programmes and conflict and making

attempts to minimise conflict-related risks, so that development assistance 'does no harm'.
■ **Working on conflict**: conscious attempts to design policy and programmes with a primary focus on conflict prevention, management or resolution.

In recent years, development actors have increasingly worked in and on conflict, whereas in the past they avoided conflict countries or ignored conflict dynamics, and inadvertently exacerbated tensions or missed opportunities to mitigate or resolve conflicts.

2.2.2 Phases of Conflict

Being conflict sensitive involves not only being aware of the conflict situation as it currently stands, but also being conscious of how the current

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[44] Banfield and Tripathi 2006; Banfield et al 2003; Bennet 2001.

[45] Anderson 1999.

situation may change. In such circumstances, good local knowledge and careful forward planning for different potential outcomes are essential (Box 7). Conflict can be seen as a cycle and in post-conflict environments there is a high likelihood of a return to violence.[46] In addition, pockets of violence may persist in the early post-conflict phases. Donors should be aware that they themselves are not neutral, and pay appropriate attention to staff security and risk.

2.3 Assessing the Situation

Several tools have been developed to help development actors understand the social, political, security, economic and social dynamics of conflict (Box 8). Local knowledge and contextual information are crucial for all of these.

Conflict assessments generally involve (i) considering the social, political, security, economic and social dynamics of conflict; (ii) mapping stakeholders to the conflict and their relationships; (iii) understanding changing conflict dynamics. They also involve mapping current and planned responses to the conflict, and often help guide development of strategies and options. Different conflict assessment methodologies have different focuses. Many are concerned primarily with the political landscape.[47] Those adopting a more economic perspective often have a sectoral focus: such as the macroeconomic effects of conflict, and the potential risks for investment;[48] or the impact of a conflict on the livelihoods of individuals and households.[49] The focus of the tool depends on the interests of the organisation and the researchers who develop it, but the range of tools on offer means that a wide range of interests can already be catered for.

Box 8. Tools for assessing conflict and post-conflict situations

- Clingendael's Stability Assessment Framework (van der Goor and Vergestern 2000)
- GTZ/BMZ's Peace and Conflict Assessment (Bagwitz et al 2008, 30ff, based on Paffenholz and Reychler 2007)
- DFID's Conducting Conflict Assessments (DFID 2002)
- IDRC's Peace and Conflict Impact Assessment (Bush 1998)
- International Alert's Conflict Analysis System (IA 2004c)
- Sida's Eight-Step Strategic Conflict Analysis (Sida 2006)
- ODI's Livelihoods Assessment Approaches in SCCPI (Jaspers and Shoham 2002)
- UNDP/UNDG/World Bank's Post Conflict Needs Assessment (UNDP 2007; Kievelitz et al 2004)
- UN Global Compact's Conflict Impact Assessment (UNGC 2002)
- USAID's Conducting a Conflict Assessment (USAID 2004)
- World Bank's The Conflict Analysis Framework (World Bank 2002)

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[46]   DFID 2006.

[47]   E.g. Bagwitz et al 2008, 30ff; Gündüz and Klein 2008, 3ff; IA 2004c; SaferWorld 2004; Sida 2006.

[48]   E.g. Banfield and Tripathi 2006, 9ff; UNGC 2002.

[49]   E.g. Abdelnour et al 2008; Jaspers and Shoham 2002; USAID 2005.
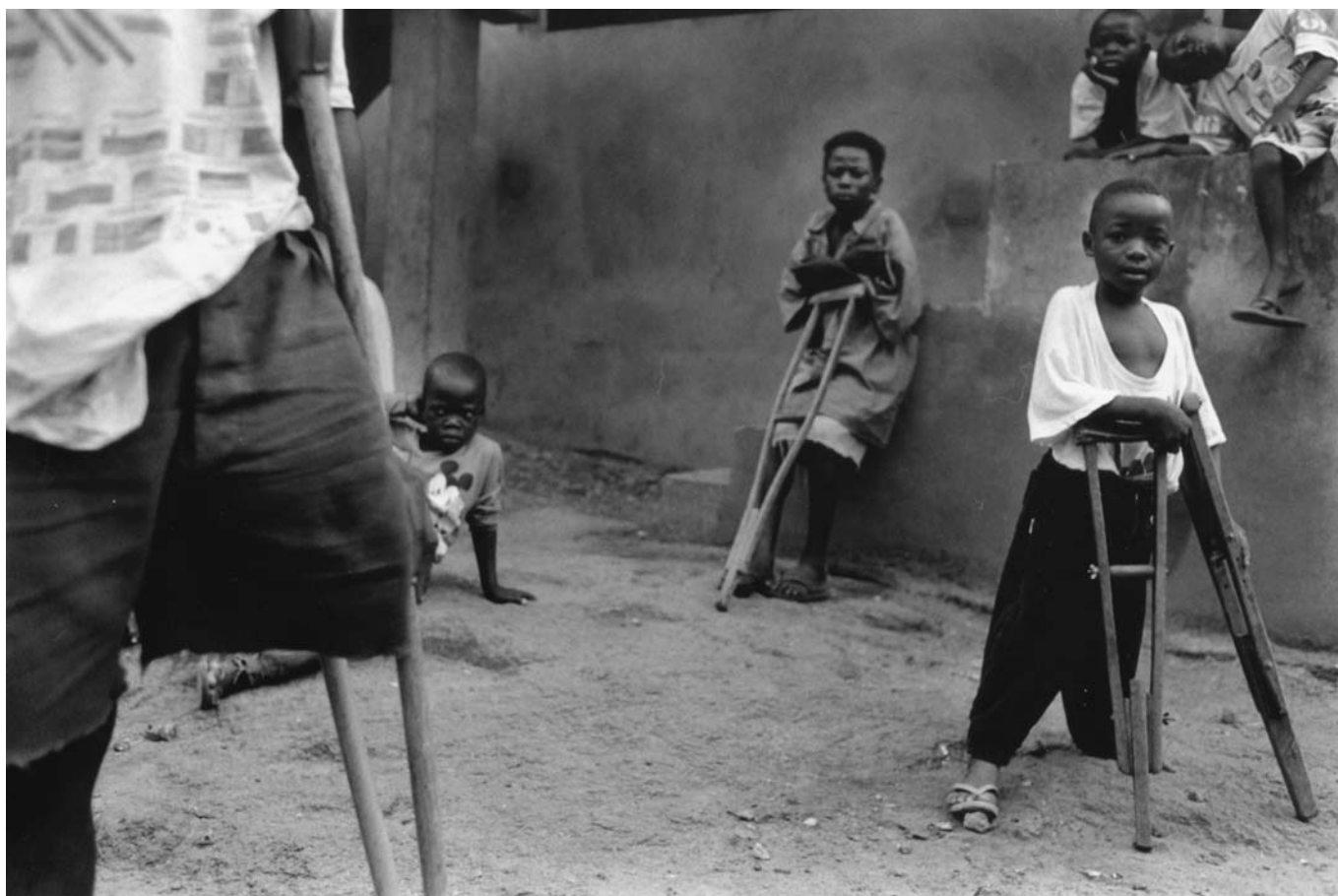
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The multiplicity of tools available allows for a variety of different approaches and interests. However, it also means that different organisations may not be on the same page when approaching the same post-conflict situation. Coordination between relief and development organisations, as well as between different development bodies, would be greatly facilitated by a shared framework for pre-intervention assessments. This would help in the identification of common goals and directions.

Opportunities therefore exist for reconciling the various assessment tools or for agreeing on a universal assessment approach, and this could be a focus for future coordination efforts.

However, when conducting conflict assessments, different donors can still reach agreement on which methodology to use, and adapt it to the specific requirements of the study. Understanding how to support private sector development in a post-conflict environment cannot be done unless each conflict assessment is tailored to the situation at hand. Assessments should a range of factors, including economic, socio-cultural issues, and security and political issues. A private sector development specialist and an economist should be on the assessment team as well as socio-political scientists, other technical specialists and country experts.

Box 9:
Directions for conflict assessments

- Reconcile different assessment tools or develop a shared assessment framework
- Tailor methodologies to specific questions and situations
- Ensure that both PSD and conflict specialists are involved in the assessment process

Chapter 3: Post-Conflict Cooperation
Partners, Stakeholders and Post-Conflict Actors

3.1 Introduction

3.1.1 *Principle and practice*

Post-conflict situations are characterised by fragmentation of many types: social, political and economic. This is because war breaks down channels of communication between people; rupturing the connections between individuals and groups, and eroding social networks. Conflicts destroy cooperation, and cooperation should therefore be a central feature of all post-conflict development.

The fragmentation of post-conflict situations is highlighted by the many different types of actors and stakeholders. As well as members of the development community, a number of other different types of actors and stakeholders are also likely to be present. These may include: humanitarian relief workers, the post-conflict state, community groups and the wider conflict-affected population, the local private sector, the international private sector, international military forces, and local armed groups.

The range of stakeholders in a post-conflict situation is therefore very broad, and may well include actors not traditionally thought of as development partners. It is important that donors try to engage with them nonetheless. The principle of working together is important in post-conflict situations for not only its symbolic value, but also for its practical worth.

The fragmentation of a post-conflict environment means that working alone is less effective than engaging with a range of different partners. Local knowledge and information may have to be gathered from many dispersed sources, meaning that coordinated research and planning yields better results. Similarly, conditions vary in different localities, meaning that programming will need to be diverse. Finally, the practicalities of operating in a fragmented environment mean that pooled resources are likely to improve the efficiency of implementation. Working with a broad range of different partners and post-conflict actors should be both a post-conflict principle and a post-conflict practicality.[50]

This chapter considers cooperation in PSD between donors and a range of different types of organisation: humanitarian relief actors, central and local government, NGOs and civil society organisations (CSOs), the local private sector, multinational corporations, the military, and coordination amongst donors themselves.

3.1.2 *Factors working against cooperation*

In practice, working together never proves to be easy. In post-conflict situations, part of the problem is due to disagreement over what constitutes best practice. Agencies are still experimenting internally and developing their own capacity for coping in such environments there so there are understandable difficulties in organising effective inter-agency cooperation. Individual donors are only just beginning to produce internal guidelines or best-practice handbooks for post-conflict programming, and some of these publications are still in preparation (Box 10). Within the next few years therefore, donor organisations will develop more coherent policies and become more internally consistent in their approaches. Once this is done, it will make cooperation with external partners much easier.

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50   Nelson 2000, 49; Specker 2008a, 3.

Box 10.
Internal guidelines recently produced and currently in preparation by donors

- October 2007, USAID: *A Guide to Economic Growth in Post-Conflict Countries*
- May 2008, GTZ: *Private Sector Development in (Post-)Conflict Situations*
- May 2008, UN: *UN system-wide policy paper for: "Employment Creation, Income Generation and Reintegration in Post-Conflict Settings"*
- In preparation, Dutch MFA: *Economic Development in Fragile Environments.*
- In preparation, UK Stabilisation Unit: *Stabilisation through Economic Initiatives and Private Sector Development*

Unfortunately, this will not resolve the differences of opinion which are beginning to emerge. One of the major fault lines already apparent between donors is preference for approaches aimed at economic growth, and those aimed at direct intervention. This debate will be explored more fully in Chapter 4. Coordinated action is made harder by differences of opinion within the donor community over exactly what needs to be done, when, and how. In addition, donors may have different political approaches, which may influence, for example, their ability to work with one or other side in the conflict.

3.2 Humanitarian Relief and Development

Traditional approaches have distinguished between 'humanitarian relief' and 'economic development'.[51]

Distinctions are made on the basis of timing, with relief being focused in the immediate post-crisis period and development phased in later. The difference is also one of aims, with relief targeted at alleviating immediate need and development being focused on future recovery. Finally, relief often involves different activities to development, usually involving the mass distributions of foodstuffs or supplies.[52]

In recent years however, relief and development actors have begun to work in closer accord. It is now recognised that more is required than distribution of humanitarian aid, and that early recovery of the economy and peacebuilding can start in the humanitarian phase. [53]

As mentioned above, economic factors can contribute to violent conflict, and also destabilise peace. While they should be considered in all post-crisis contexts, it is therefore particularly important that they are considered in post-conflict situations. Pos-conflict relief should therefore always integrate PSD from the outset, and PSD should consider relief as well.[54]

3.2.1 Market-Integrated Relief

One of the main areas where humanitarian and PSD actors can coordinate their efforts is in the field of market-integrated relief (MIR). Distributive interventions may be much-needed in the immediate aftermath of a conflict. However, embarking on such activities without due consideration for development runs the risk of distorting local markets and undermining the existing private sector. This could eventually build up a culture of dependence on aid.

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[51]   Barakat and Chard 2005.

[52]   de Souza et al 2003; Harris and Lewer 2002; Lange and Quinn 2003; Longley et al 2007b; Saperstein and Campbell 2008, 1; Thompson and Bell 2007, 20ff.

[53]   Jacobs 2008; Sperling at al 2004; SEEP 2007, 22ff.

[54]   de Souza et al 2004; Harris and Lewer 2002; Lange and Quinn 2003; Longley et al 2007; Saperstein and Campbell 2008, 1; Thompson and Bell 2007, 20ff.

Box 11.
Market-integrated relief

Purchase for Progress (P4P) in Uganda

The Purchase for Progress (P4P) programme is a new initiative launched by the World Food Program (WFP), currently being piloted in Burkina Faso, Malawi, Mali, Mozambique and Uganda. If these initial pilots are successful, a second phase of pilots is planned in Ethiopia, Kenya, Malawi, Rwanda, Tanzania and Zambia.

The WFP first initiated a programme for local procurement in Uganda in 1991. As of 2005, the WFP set a target of 40% for local sourcing of food commodities, also aiming for 10% of this to be purchased from low-income farmers. However, by 2005 this latter target had still not been reached, with goods from farmers' associations and cooperative groups only accounting for 4.7% of locally-procured commodities. The remaining 95.3% was provided by a small number of medium-sized and large producers. The tender process, which favoured suppliers with ready stocks, was identified as one of the major barriers to low-income farmers benefitting from the WFP's local procurement.

P4P in Uganda aims to tackle this problem, engaging directly with cooperatives and farmers' associations. The structure of supply contracts and the tender process has been revised, so that low-income farmers are offered long-term contracts. These contracts ensure a degree of stability for more vulnerable producers, and should also encourage investment.

References: Donovan et al 2006; Walker et al 2005; Wandschneider and Hodges 2005; WFP 2008.

Additional comments from: David Rinck

At the very least, relief should be sensitive to markets, avoiding any distortions and working around existing economic and social frameworks.[55] Therefore, relief should be 'market-integrated'. Ideally however, relief could actively be used for market development; building on the local private sector and any distribution networks which are still operational.[56] Both procurement and distribution strategies should be shaped with local markets and development goals in mind (Box 11).

3.2.2 Relief-to-Development Transition

However closely development and relief actors might work, there will still be differences between the two. In the immediate post-conflict phase, humanitarian concerns are more pressing than in the later post-conflict phases. Early-phase programming should be done with the later phases in mind however, and different strands of programming can continue concurrently, with the different emphases on different strands peaking at different points in time.[57] Nonetheless there will still be points of transition between these phases or emphasis peaks. How such transitions can be effected in practice is still uncertain; they may involve a changeover of personnel and a shift to different systems of funding.

The initial point of entry for PSD programming into a post-conflict situation is also an issue under some

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[55] McVay 2005, 6; Sperling et al 2004.

[56] Blum 2008; Miehlbradt and McVay 2006, 66ff; SEEP 2007; SEEP 2008; Walker et al 2005.

[57] E.g. UN 2008, 8ff.

Box 12:
Relief and development

Integrate development principles into relief by considering:

■ Procurement - what are you supplying?

■ Procurement - where are you getting it from?

■ Distribution - where are you distributing it?

■ Distribution - how are you getting it out there?

Box 13:
Future directions for phasing transitions

■ When should PSD programmes start?

■ How can we make the practical transition between relief and development programming?

discussion. It is now recognised that PSD concerns should be integrated into relief efforts from the very outset, including before a peace agreement and even during active periods of conflict. However, the time at which programmes aimed specifically at PSD should be introduced remains unclear. The early results of current research on the subject suggest that there is ample scope for economic planning to be integrated into the negotiation of peace agreements themselves.[58]

3.3 Government Actors

It is generally preferable to work with the public sector in post-conflict environments; because of

state fragility, and the importance of consensus in the aftermath of the conflict. Some aspects of PSD, such as reforming the business enabling environment, require a high level of cooperation from the host government. In contrast, others, such as value chain development, involve partnering primarily with the private sector. However, donors would ideally maintain close relations with post-conflict governments, and keep them informed, if not actively involved, in all PSD programming.

This is often a lot easier said than done, however. As already mentioned, central government is often weak or ineffective in post-conflict settings. State structures lack authority, and have limited practical capabilities. It is simply not always possible for a post-conflict government to be fully aware of, let alone engage in, PSD work.

However, in a post-conflict context there are likely to be a number of donor-support initiatives to help governments to increase capacity, efficiency and transparency.[59] There is therefore an opportunity to coordinate PSD programming with interventions aimed at supporting the public sector. This is particularly true of interventions aimed at helping post-conflict government to create a positive investment climate and economic growth. Such projects fall into both categories, and encourage the development of the private sector whilst promoting nationbuilding and increased state capacity.

After a war, especially one that has been long and protracted, the state administration may suffer from endemic corruption, powerful vested interests, and factionalism. In addition, the government may itself have been a conflict actor. Involving the state in PSD is less attractive when there is a lot of residual resentment following the conclusion of an official peace, or if a post-conflict regime assumes repressive characteristics. However, studies have shown that ceasing to engage with governments completely is not an effective strategy in

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58 Clingendael 2008.

59 Bagwitz et al 2008, 89.

encouraging institutional change.[60] It has proved more effective to change the form and type of engagement, actively using it to encourage institutional change.[61] At the very least, there should be open channels of communication between the post-conflict government and donors on the issue of PSD (Box 14). However, the role played by a government during a conflict itself must be taken into account by donors when interacting with the government after the outbreak of peace.

Box 14:
Involving the public sector in PSD programming

If active involvement is not possible due to capacity problems:

■ they should at least be fully aware of it, and
■ increasing government engagement with PSD can be integrated into public-sector development

If it is not desirable due to ethical problems:

■ keep communication channels open,
■ but avoid direct government influence over projects

3.3.1 Public-Private Partnerships (PPPs)

The term 'public-private partnership' (PPP) is used very widely, and can refer to a number of different partnership arrangements (Box 15). The 'public' partner may be either the government of the host country or a donor organisation itself; while the 'private' partner may be either a company from the host country, or one from a donor country or an MNC. In order to avoid confusion, the term 'PPP' will be used in this Review only to refer to partnerships

between post-conflict governments and the private sector (whether local or global).

One of the most common situations where PPPs may be of use in a post-conflict context is in the provision of services usually be provided by the state. Post-conflict states are frequently unable to fulfil many of their normal peacetime functions, and some may even be unwilling to do so. Therefore, when there is a gap in the provision of services by central government, there is an opportunity for the private sector to fill this gap.[62] The private sector can successfully ensure the provision of both essential services, such as healthcare, water, electricity, and transport infrastructure; and other services, such as labour exchanges, financial services etc. There is some concern that the private provision of services may act to undermine governmental legitimacy, especially in the provision of basic services. It is in these that state involvement or the lack of it will be most conspicuous.

It is therefore generally preferable that the state should retain some involvement in the provision of essential services, however limited this may be. It is important to work closely with the public sector, and setting up PPPs may be a good way of ensuring this. PPPs can fulfil three vital needs in a post-conflict situation; the provision of public services, the growth of the local private sector, and maintaining a sense of state legitimacy.

It may be difficult to set up a PPP in a post-conflict situation where the state is very weak and might end up being an unequal partner in the relationship. Where this is the case, the role of donors may be to stand in for the state. This role is twofold: on one hand, donors might have to act as a guarantor in the place of the state, assuming risk in unstable situations and guaranteeing security; while on the other, donors might have to protect the interests of the state itself if it is unable to do so.[63]

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[60] Browne 2006; Buira 2003; Killick 2997.

[61] Browne 2007, 21-2.

[62] OECD/DAC 2007, 4; Schwartz et al 2004.

[63] Bagwitz et al 2008, 130-1; Hartman 2006.

There is a range of options for donors seeking to protect the interests of the state in a PPP (Box 16). The first of these is to reserve regulatory and licensing powers. In addition to this, clauses can be built into tender agreements which set a fixed time period for private sector provision and allow government to resume responsibility for services at a later date. In both of these options, the conditions of private sector service provision are such that the state retains both some practical control and symbolic authority. However, in a post-conflict setting, symbolic authority is as important as practical control. Public trust is a fragile commodity, and it can be won or lost in a short time. Therefore, the state must be perceived as playing some role, in service provision, even if it has limited practical influence.

But it is not always possible, however hard a donor organisation might try, to make a PPP work. If complete privatisation of services becomes necessary, this is better that it is undertaken gradually rather than all at one go.[64] Although not strictly within the remit of PSD, privatisations schemes should take the local private sector into account wherever possible, and be carried out in a way which is both conflict-sensitive and market-sensitive.

Box 16:
State authority and private service providers

- Opt for PPPs, rather than wholesale privatisation
- If privatising state interests, only do so in gradual stages, not all at once
- Ensure the state retains regulatory powers
- Build in clearly-defined tender periods, with options for the state to resume active control later
- Ensure a government representative is seen to be involved in the process

3.3.2 Local and National Government

Different levels of government can further confuse any cooperation between donors and the public sector in PSD. In the immediate phases after a conflict, there may not be very clear structures of government, and even once an official peace treaty has been signed, it may be some time before it becomes completely clear exactly who the public sector is. Even once the different levels of local, provincial, and national government are defined, several potential problems still remain.

The relationship between the different levels of government may not always be very strong. If there is residual hostility between groups after a conflict, this can manifest itself in the different layers of administration, and can lead to limited cooperation between them. Beyond this, there are also likely to be practical difficulties in provincial communication, and there may also be some duplication of roles and responsibilities.

From both a practical perspective, and from the point of view of promoting peacebuilding, donors must therefore take local and provincial government into account as well as national structures. They can also take an active role in promoting more dialogue between the different levels of government. Projects

Box 15.
Different types of PPP

Partnering options:

- Host gvt + host country companies
- Host gvt + MNCs/donor country companies
- Donors + MNCs/donor country companies
- Donors + host country companies

Role configurations:

- Public finance for a private contract
- Private finance for a public contract

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64 Kimonyo and Ntiranyibagia 2007, 42.

based in specific localities can act as a common point of contact, and can provide a focus for collaboration.[65]

3.3.3 The Blurred Distinction between Public and Private

In many developing countries, and in many post-conflict states in particular, there is not always a clear dividing line between the public and the private sector. Public figures and state officials often have strong interests in private companies, and this has a major effect on how both sectors function. During the course of the conflict, military leaders often take control of economic resources and this is rarely relinquished after the conclusion of a formal peace. The same military leaders are likely to have some stake in a post-war government, leading to an almost inevitable blurring of the line between public and private interest in a post-conflict situation.[66] From the recently deposed King Gyanendra's business empire in Nepal[67] to the militia-controlled diamond mines of Sierra Leone,[68] actors involved in conflict have often controlled significant business interests at the same time.

Box 17: Public figures and private interests

- ■ Be aware of overlaps between public and private interests
- ■ Break monopolies in key sectors
- ■ Encourage competition
- ■ Work with SMEs as well as local big business

There is a limited amount that donors can practically do about this. Being aware of any such conflicts of interests is the important first step. When conducting conflict assessments, donors should ideally include research into the backgrounds of the major political and economic figures and examine any overlaps. Another practical step that can be taken is breaking monopolies in key sectors, and encouraging free and open competition.

3.4 Non-Governmental Organisations (NGOs) and Civil Society Organisations (CSOs)

In the immediate aftermath of a conflict, few non-governmental organisations (NGOs) and civil society organisations (CSOs) will be operational. They may not, therefore, be the most obvious partners for donors engaging a post-conflict setting. However, such groups can bring many benefits to a post-conflict environment. They can act as alternative social institutions in the absence of an effective or trustworthy state, and can stand in for the government in programming where donors might otherwise expect a state partner.[69] They can also help to strengthen peace, as they encourage the reconstruction of social relationships and the rebuilding of civil society.[70]

Working with NGOs and CSOs is therefore a good option in post-conflict contexts, but may not always be possible in the very early phases after the outbreak of peace. However, both the terms 'NGO' and 'CSO' are very broad, and include a range of different types of organisation. The main division is between local organisations specific to the post-conflict country itself, and larger international NGOs.

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[65] Brinkerhoff 2006, 5.

[66] Browne 2007, 8; Crilly 2008; Grosse-Kettler 2004.

[67] McDougall 2007.

[68] Bennet 2001, 6.

[69] Anand 2005, 11; Barakat and Chard 2005, `179ff; OECD/DAC 2007, 4; Schafer 2002, 20ff; USAID 2005.

[70] Parnell 2001, 16ff.

3.4.1 Local NGOs and CSOs

Local NGOs and CSOs make particularly good partners in a post-conflict context because of their familiarity with the setting and the environment. Because of the high security risks and practical difficulties, donors rarely have access to detailed research and local knowledge in the aftermath of a conflict. Local organisations can provide informed advice on programming, and much more comprehensive local knowledge than might otherwise be available.

However, this can potentially also be a concern, if local NGOs or CSOs are linked to particular groups within society or factions within a conflict. Partnering with a local organisation which is not broad-based and inclusive can be seen as 'taking sides', and will undermine a lasting peace.

Local CSOs, particularly community associations and local business associations, also make good partners at a local level. Working with these groups can be a good way of involving communities with projects, and ensuring that programming takes into account the needs and opinions of those most directly affected. In addition, these groups often contribute to peacebuilding and reconciliation, and donors can enhance this peacebuilding role yet further by encouraging a broad membership base and transparency. It is therefore desirable to engage with civil society organisations in a post-conflict environment.[71]

However, such groups are particularly likely to be dispersed by conflict, and so in some cases, the establishment of such groups may become an initial part of programming (Chapter 4.2.2). In addition, the membership of some of these groups might be restricted by social distinctions such as rank or ethnic group. In such cases, working alongside these groups

may deepen the existing divides in society. It is important, therefore, for donors to consider whether CSOs have a broad membership base.

Local NGOs can be a source of detailed local knowledge and they may be able to achieve practical goals more efficiently than parties coming in from outside would be able to.[72] In addition, supporting such organisations can also help to avoid a 'brain drain' from a post-conflict country, as they can provide employment for educated individuals. Another potential advantage of partnership with local NGOs lies in their support from diaspora communities. Diasporas can provide substantial amounts of support for development in the form of remittances,[73] and this is often channelled through local NGOs. However, local NGOs are not always comfortable with working on PSD, and this may limit the extent to which they are willing to engage as partners. However, the benefits of working with local NGOs where possible are nonetheless great.

3.4.2 International NGOs

International NGOs and charities have, until recently, often avoided private sector development. However, many do have extensive experience of relief work in the immediate aftermath of disasters and wars.

There is a movement within some international NGOs to integrate development, and specifically private sector development, into their work. One example of this is Oxfam, which is currently expanding its PSD programming in a range of different countries,[74] and has also assessed development as well as relief in the post-conflict country of Afghanistan.[75] Another prominent example is International Alert, which specialises in peacebuilding activities, and is working to place economic development firmly on the peacebuilding agenda.[76]

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[71] Parnell 2001.

[72] Banfield and Champain 2004, 19; Harris and Lewer 2002; Seddon and Hussein 2002, 47.

[73] Weiss Fagen 2007. Remittances are not a long-term solution, however, and therefore are of limited utility.

[74] Oxfam 2008a.

[75] Oxfam 2008b.

[76] See International Alert's website for details.

Box 18.
Donor bodies and international NGOs

Sida and the IRC in Northern Uganda

Sida is currently working in Northern Uganda alongside the International Rescue Committee (IRC). The project: 'Private sector promotion for rural economic growth and recovery in Northern Uganda' is organised jointly; with Sida providing funds and other support as the sole donor, and the IRC coordinating the activities on the ground. Focused in the Kitgum District, and running between 2007 and 2009, the project works to help IDPS and returnees access economic opportunities within the wider communities in which they live. The project works on a number of levels: offering training in agronomy and business skills for vulnerable individuals, providing microfinance through Village Savings and Loan Associations (VSLAs), and supporting more equitable market linkages between farmers and the private sector companies which buy their produce. In this way, the project aims to build a stronger and more resilient rural economy in the Kitgum District, with integrated communities and good market connections at its foundation.

References: IRC 2007; Selin 2006; Selin and Heijne 2007; Sida 2008.

One major benefit of partnership with international NGOs is their independence from donor governments. This is most evident in their potential to extend programming beyond country boundaries. As mentioned earlier, conflicts often spread beyond official borders. Donors, however, often have their funding ring-fenced by country, and may not be easily able to sponsor regional or cross-border programming. International NGOs do not have the same funding restrictions, and therefore by working with them, donors may be able to extend the geographical spread of their work.

3.5 The Local Private Sector

As already emphasised, private sector activity does not stop because of violent conflict –it changes form and structure. There are several recurring characteristics of a post-conflict private sector, as discussed in Chapter 2.1.5. The most notable of these are informality and the presence of strong predatory elements.

Because of the economics of conflict, the local private sector is an important stakeholder in any post-conflict situation. It will be active at several different scales, from the micro to the macro; and can have either a positive or a negative influence.

At a small scale, informal private sector activity will persist in the form of low level entrepreneurial activity by individuals and small groups. This is found even in the most straightened of circumstances – the prevalence of thriving private sectors in refugee camps has been widely commented on.[77] At this level, private sector actors can be very dynamic and flexible, but may have trouble scaling up or making their businesses sustainable in the long term. Business associations (Chapter 4.2.2), and microfinance initiatives (Chapter 4.2.4) are both ways in which donors can engage with these local private sector actors.

The private sector is also active in post-conflict situations at larger scales. In many cases, private sector actors who operate on a larger scale in a post-conflict environment will have some connection to conflict actors – either through

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[77] Abdelnour et al 2008; Hammond 1999 and 2004; ILO 2006; Kibreab 2003; Kondylis 2006; Nourse 2004.

providing supplies (these can include legitimate commodities such as food as well as war commodities such as firearms), or through negotiating terms under which they can continue business. This should not necessarily preclude donors from working with them, but in doing so, donors should be aware of their potential roles in the conflict.

Conflict actors will always be involved in the private sector at a large scale. Military equipment must be supplied, and wars must be funded. In addition, individuals in the post-conflict government may also have private sector interests (Section 3.3.3). At this high level, the local and the international private sectors merge, and donors should approach local private sector actors on this scale in a very different way to local private sector actors on a small scale.

3.6 Multinational Corporations (MNCs)

3.6.1 The Potential Impacts of MNCs

Big business often has an interest in post-conflict and conflict-affected areas, especially if the region is rich in natural resources. Multinational corporations (MNCs) are often willing to risk involvement in unstable regions and fragile countries to secure access to resources such as oil, gas and diamonds.

The impact of MNC activities in such situations has often been negative. They have contributed to war economies by being keen and unquestioning buyers for commodities which fuel conflicts. In many recent conflicts, groups have fought fiercely for control over lucrative natural resources, extracting these resources using coerced labour and using the money obtained from their sale to fund further violence. Examples of this include the oil reserves of Sudan, and the diamond mines of Sierra Leone.[78]

Even in the absence of natural resources, MNCs can have a negative impact on a post-conflict situation. Post-conflict countries can offer large potential markets and labour forces with very little state regulation. This can make them attractive to MNCs, which may be able to negotiate favourable trading or tender terms, special economic privileges, and tax exemptions.

While an immediate injection of foreign direct investment can be highly desirable in the aftermath of war, the terms of this may be such that the country may not benefit in the long term. If MNCs are not integrated within the wider economy, they will not contribute to broad-based economic growth, and introducing a parallel economy in an already-destabilised country will add to fragility. Such an arrangement may also attract skilled labourers away from the mainstream economy, and create inequalities which may form the basis for future resentment and conflict.

Because of problems such as these, the donor community has so far been somewhat reluctant to work with MNCs.[79] The profit-oriented approach of MNCs is often incompatible with development goals, and there are also major mismatches in the structure and cultures of both types of organisation.[80]

Currently, calls are increasing for donors to consider partnerships with MNCs which would minimise their negative impacts on a post-conflict situation, and maximise their positive ones.[81] MNCs do have the potential to bring many benefits with them to a post-conflict situation, and the last decade has seen many new initiatives for donor organisations to engage with big business (Box 19).[82]

An MNC can provide much-needed employment (Box 20). Employment generation is vital for the substantial numbers of people who do not have

78   Bennet 2001, 4-5.

79   Böge et al 2006, 67.

80   Banfield and Tripathi 2006, 5; Böge et al 2006, 9ff; Switzer and Ward 2004, 4ff.

81   Banfield et al 2003; Banfield 2007; Bennet 2001; Ruggie 2008; Shankelman 2007; UNGC 2008.

82   Banfield et al 2003; Banfield and Tripathi 2006; Bennet 2001; Switzer and Ward 2004.

in specific post-conflict situations; and more general cooperation on principles and guidelines for groups of MNCs.

3.6.2 Working with Individual MNCs

Donors can work with individual companies in specific situations, by either assuming the role of an advisor, a facilitator, or both. In an advisory role, donors can inform MNC about the conflict background, and help them to conduct risk assessments and determine possible paths of future action. They can also help MNCs to consider the full range of their potential impacts, and from this ensure that they are conflict sensitive.[84] For example, donors can help companies to ensure that their employment policies are transparent and work to mitigate existing tensions within society, rather than adding to them.

Beyond acting as advisors for MNCs, donors can help MNCs to integrate into the local economy. Donors can facilitate or moderate interaction between MNCs and the state, ensuring good communications and fair and equitable dealings. If MNCs can be persuaded to work cooperatively with local governments, national economic structures can be strengthened, rather than further damaging an already-weak regulatory system. Donors can also introduce MNCs to local suppliers and distributors and brokering mutually beneficial agreements between them.

In post-conflict contexts, donors will need to counsel either restraint or boldness. As mentioned above, MNCs interested in natural resources are often eager to enter into a post-conflict context as soon as possible, and donors dealing with these companies will need to persuade them to be more cautious and conflict-sensitive.

At the other end of the scale, other companies might be unwilling to shoulder the high risks of entering into a conflict-affected situation, and might need donor encouragement. In these cases, donors can help to attract investment from MNCs by offering

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Box 19.
How donors can help MNCs

Local knowledge:
- Conflict background
- Assessment of political and economic risk
- Sensitivity to the social and cultural environment

Employment:
- Labour exchanges
- Conflict-sensitive hiring and firing policies
- Conditions at work; health and safety
- Training and skills

Business linkages:
- Local procurement of supplies/inputs
- Local distribution
- Government interaction
- Sector associations

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access to incomes or livelihoods in the period immediately after a war.[83] Not only simple employment, but also training can be delivered in this way. In addition to employment schemes, MNCs can also stimulate the development of the private sector beyond the corporation itself. Supply industries can develop around the operation of an MNC, and new enterprises can spring up in response to the spending capabilities of the newly-waged workforce.

MNCs can, therefore, potentially contribute towards development, and donors can work with them in these areas (Box 21). Working with MNCs can involve direct cooperation with specific companies

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83 UN 2008.

84 Banfield et al 2003, 4-5; Böge et al 2006, 65-66; Switzer and Ward 2004, 43ff.

Box 20.
How MNCs can further development

Heineken, Guinness and Local Procurement of Sorghum in Sierra Leone

Heineken International has interests in many African countries, and first started operations in Sierra Leone in 1962. The Heineken/Guinness Brewery in Sierra Leone was badly damaged during the civil war, but since 1999 has been rebuilt and resumed production. Initially, the reopened brewery made substantial losses, due to the heavy taxes levied on both product sales and the import of raw materials. In 2005 however, after a particularly bad year for tax losses, the brewery initiated a new pilot scheme for local procurement of the raw materials necessary for brewing beer.

Under the Sorghum Project, locally-grown sorghum was gradually and partially substituted for imported malt barley in the brewing process, which had the dual benefits for the brewery of bringing down the tax bill for imports, and reducing the absolute cost of raw materials for brewing. Although such a scheme has clear financial benefits for the MNCs involved, it also furthers development, stimulating agricultural production as well as local distribution networks. In Sierra Leone, the agricultural production had been severely reduced during the conflict, and the Sorghum Project helped to revitalise a struggling sector. In the project's first year, the brewery purchased sorghum from 1,500 farm families, and is steadily increasing its supplier network. Similar schemes have now been implemented in Ghana and Nigeria. The Sorghum Project was jointly financed by Heineken International, Guinness Breweries Ltd, and the Common Fund for Commodities, and managed by the European Cooperative for Rural Development (EUCORD).

References: Heineken 2003; Mbonu 2006; New Agriculturalist 2008.

Additional comments from: Victor Famuyibo (Heineken)

their services in an advisory and facilitating role, and also acting as guarantors for security risk. One donor who has actively engaged in this role is the Dutch MFA, who encouraged a Dutch agricultural company to invest in the Uruzgan Province of Afghanistan, sponsoring the production of saffron.[85] Such support for MNCs may be controversial, but has major advantages for PSD.

3.6.3 Working More Generally with MNCs

On a more general level, donors can work with groups of MNCs to establish voluntary guidelines and codes of conduct for operating in conflict-affected situations. Already, several multilateral organisations have suggested general guidelines for engagement with developing countries (Box 22), and more work is being done to

Box 21.
Options for engaging with MNCs

The specific:

■ Advisory role for CSR schemes
■ Advisory role for conflict sensitivity
■ Facilitate integration into local economy
■ Facilitate and mediate MNC-government interaction

The general:

■ Produce general guidelines for all MNCs operating in post-conflict situations
■ Produce sector-specific guidelines
■ Promote voluntary codes of ethical conduct

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85   Dutch MFA 2007.

draw up similar guidelines for post-conflict countries.[86] In addition, there are several sector-specific codes of conduct which groups of companies have signed up to voluntarily, including the Kimberley Process in the diamond industry, the Extractive Industries Transparency Initiative (EITI), and the Global Mining Initiative amongst others (Box 23).

Donors can help to set up such initiatives, contributing both to the preparation of the codes themselves, and in recruiting companies to agree to them. They can also work to support existing codes, helping to publicise them, and supporting individual MNCs to implement them in a practical way. Donors may also find a role in 'enforcing' these codes too. There is a danger that such initiatives end up as mere window dressing in the CSR profiles of the MNCs who sign up to them, and donors can play a part in ensuring this is not the case.

3.7 The Military

During and in the immediate aftermath of a war, there will be a strong military presence. The links between security and development are increasingly recognised. Development can contribute to security, and security is vital to enable sustainable long-term development. [87] The combination of diplomacy, defence and development is sometimes referred to as the '3D' approach,[88] while the principle of all government departments engaging in coordinated efforts within a conflict-affected country is referred to as the 'Whole of Government' approach.[89]

However, working alongside the military includes more than just working with international forces from donor countries or multilateral organisations. Cooperation with local military groups may also be necessary, especially in the immediate aftermath of

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Box 22.
General guidelines for MNCs

- Global Reporting Initiative
  (see GRI 2006)
- OECD Guidelines for Multinational Enterprises
  (see OECD 2000)
- Principles for Responsible Investment
  (see PRI 2006)
- Red Flags Scheme
  (International Alert)
- UN Norms on the Responsibilities of Transnational Corporations
  (see UN 2004)
- UN Global Compact
  (see UNGC 2008)
- Voluntary Principles on Security and Human Rights
  (see VP 2000)

Box 23.
Voluntary sector-specific codes of conduct for MNCs

- The Kimberley Process
  (diamonds)
- EITI
  (oil, gas and minerals)
- Global Mining Initiative
  (minerals and metals - see also GMI 2000)
- Forest Stewardship Council Certification
  (forestry)
- FLEGT Action Plan
  (forestry - see also EC 2003)
- Equator Principles
  (financial services)

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86   Banfield et al 2003; Banfield and Tripathi 2006; Bennet 2001' Böge et al 2006; IA 2004a; UNCG 2005.

87   CSIS 2008, Klingebiel and Roehder 2004, 2005 and 2008; Microlinks 23; ROAN 2006; Stewart 2008; Tschirgi 2003; UK Cabinet Office 2005; Zink 2005.

88   Specker 2008b.

89   OECD 2006; Stewart and Brown 2007.

a conflict. These two different types of military actors will be considered separately.

3.7.1 International Forces

International forces can be either active armies from foreign governments, such as those currently active in Afghanistan and Iraq, or forces representing the international community, such as UN Peacekeepers. The expansion of traditional military activities to include reconstruction, stabilisation, and winning 'hearts and minds' has led to a new type of relationship between military and development organisations. However, this new relationship has so far been an uneasy one, particularly because of concerns that the space for humanitarian actors to operate can be eroded by military presence. However, there have already been improvements in this area (Boxes 24 and 25).

There are significant differences between military and development bodies in terms of primary goals, corporate cultures, organisational structures, funding arrangements, and expertise.[90] In addition, the relationship itself is likely to be an unequal one, as development goals are frequently subordinated to military aims.[91]

There is also concern that the blurring of the line between military and development activities is dangerous at a conceptual level. This is especially problematic if international forces are actively

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Box 24.
Military organisations and development 1

US-led PRTs in Iraq

Provincial Reconstruction Teams (PRTs) are a controversial feature of coalition military activities in both Afghanistan and Iraq. These can be military or joint civilian-military units, tasked with development activities with the aim of increasing security by winning the 'hearts and minds' of the local population. When they were first established, the PRTs met with limited success. Inefficiency, bad management, and poor planning characterised their early activities, which badly soured their relationships with the development community. Interventions were often executed without thought for sustainability of long-term utility, sometimes leading to damaging results. In addition, there was no clear mandate to distinguish the role of the PRT vis-à-vis professional development organisations, and confusion within local populations over the status of other humanitarian and development personnel.

Since these early stages, the PRTs have undergone detailed scrutiny and some reform. Their remit is becoming more clearly defined as relating to immediate stability rather than long-term development, and their activities are starting to become more targeted and specialised. More attention is also being paid to their internal structure and composition, and attempts made to include development professionals within the teams themselves where possible. Closer relationships with development and humanitarian bodies are also being sought, with responsibility for implementing projects more frequently given to local NGOs.

References: Drolet 2006; Microlinks 23; Penh et al 2008; Perito 2005; Stewart 2008; Stewart and Brown 2007; WWSPIA 2008.

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[90] Drolet 2006, 13; Klingebiel and Roehder 2005, 8ff; Microlinks 23; Stewart and Brown 2007, 2.

[91] Klingebiel and Roehder 2005, 22ff; Stewart and Brown 2007, 2.

Box 25.
Military organisations and development 2

The Dutch IDEA Network

The IDEA Network draws on the Dutch Army's pool of professional experience, using Army reservists who are also private professionals sector to engage in development activities. While it was initially founded in response to the war in Bosnia, IDEA gained institutional standing in 2001 under the auspices of the Defence-Business Platform; a joint organisation between the Ministry of Defence and the Confederation of Netherlands Industry. The Network is currently active in Afghanistan, and its activities include training in entrepreneurial skills (see Box 35: SIYB Programme), technical instruction, learning exchange trips, and providing business support and advice at local business centres.

IDEA functions as a wing of the military: staff wear army uniforms and are subject to military command structures and protocols. However, their professional experience in the Dutch private sector makes them qualified for, and predisposed to, PSD programming. However, IDEA does not include development specialists, and did not have strong connections with development bodies and when programming first started in Afghanistan. Since then, relationships between IDEA and development organisations have improved, and NGOs such as the Aga Khan Foundation are beginning to work cooperatively with the Network. This has proved especially important for IDEA in terms of exit strategies - as a military organisation, IDEA must sometimes exit an area and leave a project before completion, and it has been helpful to be able to hand projects over to partners within the development community. Such practicalities do not clash with the IDEA philosophy: IDEA sees itself as an interim solution to a long-term problem, providing PSD only in situations where it is unsafe for development bodies to do so.

Source: Dick Scherjon (Dutch Military)

engaged in the conflict itself. In such cases, the legitimacy of development bodies can be called into question by too close an association with active military forces. This has proved to be a particular problem in the recent conflicts in Iraq and Afghanistan, where the lack of a distinction between military and aid personnel has led to development workers becoming military targets.[92]

Despite these problems in integrating military bodies and development agencies, the involvement of the military in development activities is a reality, as is the practical need for development organisations to engage with the international military in conflict-affected situations. The lessons learned from the past suggest that the key to improved military-development partnerships lies in both more integration and more separation (Box 26):

It is argued that more separation is needed at a practical level, giving each partner distinct and clearly defined roles which play to their different strengths. In general, it is thought that military units should concentrate primarily on the security and stabilisation-related tasks for which they already have the relevant expertise, and for securing the environment so that humanitarian and development actors can operate.[93] Donors should assume responsibility for economic development, as this is

92   Drolet 2006, 4; Penh et al 2008, 3; Perito 2005, 9ff.

93   Perito 2005, 12.

Box 26.
Collaboration with international forces

More separation at a practical level

- There must be a strict distinction between military and development units on the ground
- Both must have clearly-defined roles and responsibilities
- Roles should correspond to expertise and capacity
- However, different units should be aware of each other, and be able to consult each other in areas where they may lack specific expertise

More integration at a decision-making level

- There should be unified country strategies for each post-conflict country
- There should be one central decision-making body to oversee these strategies, incorporating representatives from both military and development agencies
- Schemes should encourage greater understanding between military and development partners, and better awareness of each others' different strengths. These could include: temporary exchanges of staff, cross-training, and joint training sessions.

where their expertise and experience lies. However, it is widely agreed that there should be good communications between the partners, and opportunities for consultation or the secondment of staff where appropriate.

At a decision-making level, it has frequently been commented on that more integration would be helpful to align overall goals and approaches. For example, where multilateral forces are present, the concept of "One UN" needs to be applied to post-conflict countries, to ensure that UN peace operations and country team work in an integrated manner behind a common strategy. For countries involved bilaterally in a conflict, a comprehensive 'Whole of Government' strategy should be developed, and a central body, including representatives from all relevant government departments, should be appointed to oversee the implementation of this strategy. This strategy

should include an economic pillar with private sector development elements.

Even if they do not actively engage in development activities, the mere presence of international forces has an important effect on the economic environment.[94] International forces can have both positive and negative impacts on a post-conflict economy, and there are therefore opportunities for donors to work with the military to maximise their positive economic impacts and minimise their negative ones.

Local procurement of supplies, for example, can be used to stimulate provincial production and distribution networks.[95] This should be done with an awareness of how local procurement might inflate commodity prices.

In addition, foreign troops are a potential market for local goods, which can stimulate the informal

[94] Ammitzboell 2007.

[95] Carnahan et al 2006, 23ff.

economy.[96] Finally, the employment of national staff can provide both skilled and unskilled jobs, giving some individuals useful experience as well as income.[97]

Private military companies (PMCs) are a particular case, as they operate outside normal governmental controls. It is particularly difficult for development bodies to work with them; chains of command may be inaccessible, and mechanisms for accountability may be limited. There is also some concern that PMCs have a vested interest in prolonging conflict, and so may present a threat to stability and peacebuilding. They are fundamentally a part of the war, rather than the peace economy, and must be treated as such. There have been some moves within donor governments to regulate PMCs which are based within their own countries.[98]

3.7.2 Local Armed Groups

Local armed groups are important stakeholders in any post-conflict situation, and donors will inevitably have to work with them in one form or another. Leaders of local armed groups may be involved in forming a post-conflict government, and former combatants will need to be reintegrated into peacetime society. Local armed groups may take several forms from the regular troops of a legitimate national army to the local militias of warlords. The individuals concerned can also very widely, from trained professionals to conscripted child soldiers. It is important that donors are prepared to engage with a broad range of local armed personnel.

Donors have often shunned working with local armed forced in order to avoid 'taking sides' or becoming associated with the perpetrators of wartime atrocities. However, it may be necessary to engage with them to prevent a return to conflict.

One major exception to donors' general rule of avoiding working with local armed groups is the current proliferation of Disarmament, Demobilisation and Reintegration (DDR) programmes.[99] Although these programmes can largely be organised and run by national governments and supported by donors, the cooperation of military command will make the process much easier. Local military leaders can be useful in the planning and implementation of DDR schemes. PSD is particularly relevant to the reintegration of ex-combatants, as sustainable employment is linked to a healthy private sector and economy.

After a conflict, ex-combatants become a problem. While there may be opportunities for some to be retrained into a new peacetime security force, for the vast majority there will no longer be a role for them in their military capacity. It is not always easy, however, for them to find alternative roles and livelihoods strategies. Many ex-combatants are young, and lack both education and work experience. In addition, many may not be able to function in peacetime society if they are traumatised by their experiences, or accustomed to wielding power through violence. Special attention must be paid to particularly vulnerable group amongst the ex-combatants which are likely to have the greatest difficulty re-entering society – child soldiers and women.[100] If left without gainful employment, ex-combatants can be a major threat to peace and stability.[101]

Most schemes combine all three of the DDR goals, working for the decommissioning of weapons, the dispersal of military structures and units, and the settling of ex-combatants into new and non-violent livelihoods strategies. However, it is contended here that only the last of these, reintegration, is strictly necessary in a post-conflict context. Although they

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[96] Carnahan et al 2006, 18ff.

[97] Carnahan et al 2006, 29ff.

[98] FCO 2002.

[99] Dzinesa 2006; EC 2006; ICG 2005; Morgan 2000; Rossi and Giustozzi 2006; UNIFEM 2004. See also the UN's Integrated DDR Standards (IDDRS); UN 2006.

[100] UNIFEM 2004.

[101] MacMillan 2006.

**Box 27.
Reintegration as the crucial element in 'DDR'**

USAID's LEAP Programme in Mindanao

Since 1997, the Livelihoods Enhancement and Peace (LEAP) Programme in Mindanao, the Philippines, has helped ex-combatants from the Moro National Liberation Front to settle on vacant land and to engage in agriculture. Weapons were not decommissioned because of the widespread firearms culture in the Philippines, and military units were not disbanded. Instead, land was allotted to unit leaders for cultivation, and units continued to work together. This approach has yielded better results than similar programmes in Mindanao where military units were disbanded: of the 28,400 participants in the programme, more than 90% remained working in agriculture after LEAP had ceased to function. In comparison, on projects where ex-combatants were reorganised into new working groups after demobilisation, 75% of these groups disbanded after the project's close.

References: Wirtz 2008.

Additional comments from: Bob Wirtz (USAID Philippines)

have major symbolic value, neither the removal of firearms nor the dissolution of wartime social structures can guarantee the peace (Box 27).

New research suggests that disarmament is not always necessary after a war; weapons often continue to circulate despite decommissioning programmes, and there are several developed countries where possession of firearms is common.[102] Similarly, dissolving the social structures which underpin armed groups is also unnecessary. Former fighting units can be employed as effective work-groups in labour intensive schemes such as the building of infrastructure.[103] Of DDR therefore, it is reintegration which is the most crucial in both the short and long term, and this should primarily be addressed by the creation of employment opportunities.[104]

DDR is also an area which lends itself to PSD, as long-term employment necessarily relies on the private sector.[105] The training and employment schemes created under a DDR programme must take into account both the needs of the labour market and the absorptive capacity of the private sector.[106] There is also potential, perhaps working in conjunction with international forces, for donors to help provide vocational training for local troops who will go on to be security forces of the country emerging from conflict. This is one area where military units with an interest in development have already proved themselves effective.[107]

3.8 Donor Coordination

In the wake of violent conflict, there are several factors which make cooperation between

[102] Tanner 2005.

[103] UN 2008, 8; USAID 2007, 37.

[104] de Luca 2003; ILO/HEI 2006; OECD/DAC 2007; UN 2006, Module 4.30; UN 2008.

[105] Stabilization Unit 2008b.

[106] Specker 2008b.

[107] Perito 2005, 12.

development partners even more important than in other situations. Firstly, the practicalities of working in a fragmented environment mean that it is difficult for organisations working alone to successfully accomplish essential tasks such as gathering information, deploying staff, and monitoring results. If different donors and agencies pool resources and share information, they are much more likely to b effective.

Another feature of the post-conflict environment which calls for added donor coordination is the need for flexibility. Programmes must be able to adjust to people's changing needs and potentially volatile situations, and this can only be done with a wide range of expertise and resources to call upon. This range is increased dramatically if different agencies, with their different strengths and specialities, can work together. Finally, in a post-conflict situation it is crucial not to replicate efforts unnecessarily, and donor coordination is vital to avoid this. Unsurprisingly the theme of donor coordination is one which recurs again and again in the literature on post-conflict development.[108]

But while the literature repeatedly stresses the need for donor coordination, very little of it actually happens in post-conflict situations.[109] There are basic differences between agencies in terms of structure, funding arrangements, expertise, and preferred approaches to development.[110] There are also features of a post-conflict environment which make coordination even more difficult than usual.[111] One of these is the practical problem of maintaining good communications. In post-conflict situations which are unstable and have little surviving infrastructure, communications can be difficult even within an organisation, and so good contacts between agencies are even harder to ensure. Given the urgency and practical difficulties of working in

post-conflict environments, many donors simply do not try to coordinate with others.

'Whole of government' approaches, and the integration of development and security activities also contribute to the lack of donor coordination. Different donor countries have their own diplomatic agendas, and these now have a substantial impact on development programming. This is most likely to be a problem in the early phases after the outbreak of peace, as military and foreign affairs departments may still have strong interests at this point, and may became less of a problem in the more advance post-conflict phases.

Coordination between donor agencies is also made harder in a post-conflict context by the lack of coherence within the donor bodies themselves. As discussed above, relief and development arms of the same agencies may have conflicting approaches and priorities, and these must be overcome before the agency can turn its attention to coordination with external partners. Also, those working in PSD and in other areas of development within the same agency should also collaborate more closely, as successful post-conflict reconstruction necessarily involves giving support to both the private and the public sector. Development bodies may also be competing for funding during this time.[112]

Despite the frequent calls for more donor coordination therefore, in practice, it is relatively rarely attempted because of these many discouraging factors. When it is attempted however, the results are not always good. Coordination by consensus has proved particularly difficult. Disagreements between donors can delay any action being taken, sometimes even to the point of stagnation. The situation, however, is not hopeless. Effective donor coordination can be achieved in post-conflict settings

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[108] AusAID 2002, 15; Bagwitz et al 2008, 92-3 and 138-9; Browne 2007, 30; de Catheu 2006; Ersenkal and Wolf Fellow 2007, 6; Jones 2005, 119; Mierke 2006, 28; SEEP 2007, 33ff; UN 2008, 30.

[109] Strand 2005.

[110] Strand 2005.

[111] Cammack et al 2006, 24.

[112] Abdelnour and Branzei 2008.

if expectations are realistic, and plans for cooperative action are kept clear and simple.

3.8.1 Making Coordination Work in Practice

Donor partnerships simply cannot work in all areas of post-conflict PSD. In a post-conflict situation, it may often be easier to start coordination at a headquarters level, and to shift it to the country level only as expertise moves out to the field. If coordination is to be successful at all however, it must be targeted at areas which provide clear mutual benefits to all agencies involved.

One of these areas is research. It is not always easy to acquire local information and up-to-date research regarding a conflict-affected area, but all donors nonetheless need to make arrangements to do so.[113] In this area then, donors will have very similar goals – as they will all be aiming to gain recent and reliable research. Disagreements between cooperating parties are likely to be less frequent, and coordination is more likely to succeed.[114]

Another important area for post-conflict donor coordination is in providing policy advice to the central government. Policy advice is an important aspect of post-conflict PSD because enterprise and a healthy private sector will not be able to flourish without a good business enabling environment. However, achieving a consensus between donors on what advice to give will not be easy. Donor countries differ widely in their own economic policies, and different agencies espouse different economic ideologies. Unlike research, this is likely to be an area where donors disagree. It is mentioned here however, not because coordination in this area is particularly difficult, but because it is particularly important. Post-conflict governments should not be pulled in different directions by different policy advisors.

Coordination must be carried out according to simple, pre-agreed processes. Entering into arrangements where universal consensus is needed for every point of action should be avoided, as there are likely to lead to stasis. Once a general framework of action has been agreed on, practical decision-making authority needs to be delegated. One way of practically carrying out donor coordination is through the establishment of multi-donor finance mechanisms.[115] These allow donors without a ground presence to contribute to development efforts, and also allow for the pooling of research and resources, as well as just funds. However, trust funds work best if there is a clear mandate for what kinds of activity the fund will support, minimising the opportunities for disagreement between partners.

During the run-up to peace, and in the early post-conflict stages, coordinated planning can help avoid the duplication or overlap of programming. If donor countries are already coordinating military or diplomatic activities in the area, it may be possible to use these existing channels of communication to try to coordinate development as well.

These channels of communication should also be kept open for the whole of the crucial 10-year 'danger period' when a post-conflict situation is highly likely to return to violence. Establishing country groups may be one way of ensuring this continued dialogue. Country groups are centrally-organised structures which enable communication at the level of the recipient country (Box 28).[116]

However, for such groups to work, the same difficulties as for cooperative action must be dealt with; disagreement between donors must be avoided, and differing aims and agendas must be reconciled. This can best be achieved if the post-conflict government assumes responsibility for the country group, and lays out a clear strategy for

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[113] Strand 2005, 94ff.

[114] Lebanon 2007, 7.

[115] Ball 2007; EC 2006, 19.

[116] Jones 2005. See also the DCED's project on this theme here.

Box 28.
Country-level donor coordination 1

Rwanda Development Partners

In 2005, the Rwandan Government and the UNRC set up an 'Aid Coordination Unit' (ACU), aiming to align foreign aid and other development activities in the country. The main impetus for this came from the Rwandan Government, but the establishment of the ACU was financially supported by CIDA, DFID, the Netherlands, SIDA, and SDC. A crucial part of the ACU's work involved bringing together different donor bodies under the Rwanda Development Partners. Under this organisation, aid budgets and budget support grants from different donors are harmonised, and representatives from the different donors meet at regularly-scheduled cluster meetings. During these meetings, general strategies are outlined encouraging the donor organisations to align their activities, not only with each other, but also with current policy in the Rwandan government.

The PSD cluster functions slightly differently to the other cluster groups, however. In addition to the more general strategy for PSD overall, the cluster has also committed itself to setting out specific strategies for particular economic sectors. However, in 2005, the PSD cluster identified two main concerns which cut across sector boundaries: the need to build up trades associations to encourage formalisation of SMEs, and also the provision of technical training and vocational education. Donor coordination in Rwanda is therefore highly structured, and largely government-led.

References: GoR 2005a, 2005b, 2006, 2007, and 2008.

Further comments provided by: Eric Rwabidadi (IFAD Rwanda) and Timothy Karera (USAID Rwanda)

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**Box 29.
Country-level donor coordination 2**

Coordination of International Support to Somalia

Donor coordination in Somalia necessarily follows a different pattern, given the absence of a clear sole Governmental authority. In 2006, the Somalia Aid Coordination Body (SACB) was renamed the Coordination of International Support to Somalia (CISS) committee, and given a permanent secretariat to coordinate development activities. Five sector committees meet on a monthly basis, offering technical guidance and practical coordination.

PSD does not explicitly feature in CISS's remit, although it does play a part under 'rural development'. Building on the work of SACB, CISS operates in all parts of Somalia and aims to engage broadly with all Somalis, regardless of political affiliation or status. CISS therefore works with all Somali factions, including government actors, non-State actors and the organised private sector. Membership of the CISS is deliberately as broad as its partnership base, and includes NGOs as well as non-OECD donors such as the Libyan Embassy, the Ugandan High Commission, and the Chinese Embassy. Given this breadth of both membership and engagement, CISS's management is deliberately independent from any single bilateral donor, as well as the Somali authorities. Instead, chairs of CISS are provided by either the UN or the World Bank, in accordance with Joint Planning Committee arrangements. In the absence of legitimate governmental structures therefore, donor coordination at a country level can be organised under the leadership of widely-acknowledged multilateral donors.

References: CISS 2006a and 2006b.

how the group will function. This is not always possible in the early post-conflict phases due to low government capacity, and in these instances it is possible for a multilateral organisation to adopt this role instead (Box 29).

Donor coordination can therefore be achieved in practical partnerships, and through keeping open communications at a country level (Box 30). Maintaining inter-agency dialogue is also important at the level of theory and policy however. Multi-donor bodies such as the OECD's Network on Conflict, Peace and Development Co-operation can provide a venue for the regular exchange of ideas, approaches, and best practices.[117] The DCED's work, of which this Review is a product, provides an

additional arena this exchange, but focused primarily on PSD. It is hoped that this Review will contribute in modest way to stimulating inter-agency dialogue.

3.8.2 Non-OECD Donors

The activities of non-OECD donors in conflict-affected areas are not much considered in the existing literature. However, these activities are of relevance to donor programming, and it is important that donors are aware of them (Box 31). China and India, for example, both undertake major work in Africa, while the countries of the Arab League run many development programmes in the Middle East.[118] The interventions and programmes run by non-OECD donors are often qualitatively

[117] See website.

[118] Browne 2007, 22.

different to those run by OECD members, and it is important to recognise that they nonetheless form part of the wider development landscape (Box 32).[119]

These donors have a very different form of leverage with recipient countries from OECD organisations. Most of them lack the colonial history which dogs the steps of OECD countries, and it cannot be claimed that they are part of western cultural imperialism. This is particularly important given the current international situation, where 9/11 and the invasions of Iraq and Afghanistan have left the relationship between many OECD countries and much of the developing world somewhat strained. For these reasons, working collaboratively with such organisations can therefore have substantial benefits, and donors should seek such partnerships where appropriate. Put simply, non-OECD donors can sometimes do what OECD members cannot.

However, they also sometimes intervene in ways that OECD members would not. Non-OECD donors do not always pay attention to questions of good governance or conflict sensitivity. There is a lot of potential for donors to encourage non-OECD agencies to align themselves more closely with the mainstream development community, as is currently being done in Somalia (Box 29) amongst others. However, this will be highly dependent on the non-OECD donor in question.

Unfortunately, partnerships with non-OECD donors may not always be practical. However, it is suggested that donors should be as aware as possible of the activities of non-OECD donors in post-conflict countries, as they may have a significant impact on the wider environment. In addition, donors should always remain open to the prospect of collaboration with non-OECD organisations, and aware of their potential, including them in multi-donor dialogue whenever possible.

Box 30: Making donor coordination work

Cooperative action by donor partners:

- Only attempt this in areas where there is minimum divergence between the partners' aims and approaches - research is a good example
- Agree on a basic framework or mandate for action in advance, then delegate authority for practical decision-making

Coordination through communication:

- Open up communication channels early to avoid unnecessary duplication or overlap
- In early post-conflict stages and in the run-up to peace, communication between development agencies can 'piggyback' on military and diplomatic communication channels
- In later post-conflict phases, country groups should be established, led initially by multilateral organisations but control should eventually revert to the post-conflict government

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[119] E.g. China's intervention in Angola, see Auty 2007.

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Box 31.
A non-OECD donor and post-conflict PSD

The Arab Bank for Economic Development in Africa (BADEA)

BADEA has recently financed and run several PSD-related projects in post-conflict countries:

- 2007. Côte d'Ivoire. Rehabilitation of a vocational training centre in the City of Man project
- 2007. Sierra Leone. Financial support for the Jacque Ville Bridge infrastructure project
- 2006. Liberia. Training for the financial sector organised around the theme 'Credit, Exchange, and the Foreign Currency Market'

Information from: www.badea.org

Box 32.
Some non-OECD development organisations

- The Arab Fund for Economic and Social Development
- The China-Africa Development Fund
- The Islamic Development Bank Group
- The Kuwait Fund for Arab Economic Development
- The Saudi Fund for Development
- The South Asian Association for Regional Cooperation

Chapter 4: Economy and Enterprise: *Conflicting theories of private sector development?*

4.1 Differences and Overlaps

There is no current consensus over what constitutes 'best practice' in post-conflict PSD, and current debates reflect differences in PSD more generally. PSD aims to achieve a vibrant and accessible market system, which encourages broad-based and inclusive economic growth. It is therefore difficult to measure the cost effectiveness of PSD interventions accurately, within the normal timeframe of development programmes.[120] Despite some very impressive successes, it has been even more challenging to benchmark results, or to make them comparable in any way. As a result, debates about different approaches have often not been grounded in evidence. In post-conflict PSD, there are currently two main schools of thought,[121] mirroring a wider debate in the development community. These are outlined below, particularly for those practitioners who do not have a background in PSD themselves.

One school of thought is that public agencies (governments, development agencies) can at best provide indirect support to the private sector, by creating the investment climate that it needs, to grow. Those conditions include a stable macro-economic environment, the rule of law, and a set of regulations, policies and a fiscal regime that are clearly communicated and implemented.[122] In particular, when the state structures are uncertain and in the process of being rebuilt after a conflict,

there is a crucial window of opportunity when reform is much easier to carry out.[123] Under the 'investment climate' approach, programming aims to create a business environment on a macro-scale; forming a national framework which permits, and actually positively encourages individuals to engage in complex economic activity.

Advocates of this approach note that 'red tape' and governance problems are most acute in some of the world's poorest countries; it may be prohibitively expensive to register a business formally, for example, and this condemns the poor to remain within the informal sector – where they are most vulnerable to the attentions of predatory officials. Streamlining procedures and improving their implementation must, therefore, yield major benefits for the poor.

Another school of thought holds that, while such measures are necessary, they are not sufficient; cutting red tape probably does not, on its own, boost employment or investment.[124] Creating the right environment for business is not enough: more direct intervention is needed to make a real and tangible difference on the ground. Many countries that have achieved impressive growth have done so, not simply by letting the market work its magic, but through more direct interventions, including alliances with private sector players, and direct support for emerging industries.[125]

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[120] Tanburn, 2008

[121] Ghani and Lockhart, 2008. P. 151.

[122] Addison 2006; Addison 2003; African Development Bank 2007; Anand 2005; Brück 2006; IFC/FIAS-GTZ-BMZ 2007; MacDonald 2006; Mills and Fan 2006; USAID 2007.

[123] Addison 2003, 16.

[124] Saperstein and Campbell 2008, 1; Chang 2007.

[125] Rodrik 2006 and 2008.

Proponents of the 'interventionist' approach aim to promote the local private sector at several different scales; focusing on making practical changes in the way markets work 'on the ground'. These interventions have often included a clear view of the desired end result, and of the opportunities that needed to be taken, to achieve it; they are carefully tailored to local conditions, and there is no one, standard solution.

Practitioners of these two schools of thought have tended to dismiss the other, rather than looking for common ground. Those advocating an exclusive focus on creating a conducive investment climate argue that development agencies should not be involved in 'picking winners', and that all attempts to be more interventionist have 'failed'. However, the most commonly cited failures are those of industrial policy in Africa, where civil servants often did not have the skill sets, political support or resources to implement demanding approaches.

Those advocating a more interventionist approach, on the other hand, argue that the political will for change may be lowest in the countries that need reform the most – forcing donors to work against the normal mantra of supporting partner government choice. Such critics also point out that changing a law at the national level often has little effect 'on the ground' – partly because changing the law often gets more attention than implementation and roll-out of the change. Some have gone further, suggesting that instead of increasing stability through economic growth, structural changes to the macroeconomic system often lead to an increase in horizontal inequalities, and the renewal of conflict.[126]

In reality however, there is a large amount of overlap between the two schools. For example, direct intervention to assist small business in one village with management training will never have large-scale impact. On the other hand, removing systemic constraints to the massive growth in exports within a particular value chain can benefit many thousands of smallholders in a short space of time - but would still be classified as an 'interventionist' approach. Similarly, establishing procedures for Alternative

Dispute Resolution can rapidly improve the investment climate in a visible way that delivers immediate impact - whereas streamlining business registration in a situation where there are many reasons why enterprises would want to remain informal will not have much effect.

There are therefore significant overlaps and points of crossover between the two schools, and in practice, donors tend to pursue a combination of approaches according to the needs of the individual situation. In particular, the two strands can come together in systemic interventions, or 'Making Markets Work for the Poor' (M4P) approaches. In this context, the word 'market' is shorthand for all aspects of the overall commercial system, from social and business networks to regulatory codes and financial institutions. M4P approaches are direct interventions, but interventions aimed at transforming the overall system rather than changing individual aspects of it.

However, in theory at least a distinction can be made between 'interventionist' and 'investment climate' approaches, on the basis of which programming options are often weighed. The remainder of this chapter will consider the main programming options within each of the two approaches.

4.2 'Interventionist' Approaches

Direct interventions can take a number of different forms; most of which now aim to enhance whole market systems, while others are more narrowly aimed at benefiting a smaller target group with subsidised support. There is a wide 'menu' of possible interventions – for example:

- Promoting market linkages and value chains
- Promoting business associations and community groups
- Access to employment and vocational training
- Microfinance
- Targeted support

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126 Guimond 2007, 16.

Programmes focusing on Local Economic Development (LED), Community Driven Development (CDD), Livelihoods, and Value Chains all adopt different 'takes' on the interventionist approach.

There are good reasons for adopting a direct intervention approach in a post-conflict situation. Their results are more immediate, tangible, and have clear beneficiaries. This is vitally important in a post-conflict setting, where there will only be widespread support for peace if there are obvious peace dividends. With direct interventions, such peace dividends can be rapid and highly visible, thereby decreasing the risk of a return to conflict.

In addition, direct interventions may allow donors to target the most vulnerable groups in society, working directly with the dispossessed, returnees, and women. Finally, the fact that central administration and state structures are often weak has no negative effect for direct interventions, as they do not rely on government or official institutions to function effectively. Indeed, on a practical level, it may be easier to carry out direct interventions in a post-conflict environment because they lend themselves to a fragmented social and political landscape. It is also argued that they are flexible tools for economic improvement, and can be adapted to suit specific situations and donor capabilities.

4.2.1 Promoting Market Linkages and Value Chains

Promoting market linkages is one important way of intervening in a market system.[127] Market linkages, more than other types of economic structures, are especially likely to suffer during a conflict, because of the erosion of trust between different groups within society.[128] Improving market linkages therefore has potential benefits for peacebuilding as well as economic development.[129] There are therefore priorities for donor support.

<table>
<tr><td>

Box 33.
Types of market linkages

Geographical:

- ◼ Within a local community
- ◼ Between local communities
- ◼ At a provincial level
- ◼ At a national level
- ◼ At a regional or international level

Sectoral:

- ◼ Between actors involved in the same stage of the same economic sector
- ◼ Between actors involved at different stages of the same economic sector
- ◼ Between different economic sectors

</td></tr>
</table>

Promoting market linkages also supports 'above-board' channels of regional commerce. During armed conflict, regional trade and communication are very likely to be dominated by illegal activities or controlled violently. Fostering new, legitimate, market connections offers local businesses an alternative to those which had previously underpinned the war economy. These new market linkages also serve to encourage the informal economy to formalise, in order to take full advantage of the new, more inter-connected systems.

Supporting markets can be done in two main ways. Firstly, donors can work with economic actors to link them in practical ways to other economic actors. In addition, they can also circulate information about the markets to allow actors to adjust their activities

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[127] Bagwitz et al 2008, 82ff; Gündüz and Klein 2008; MacDonald 2006, 15-6l; Saperstein and Campbell 2008; SEEP 2007; Spilsbury and Byrne 2007; Stamm et al 2006.

[128] Longley et al 2007, 2.

[129] Gündüz and Klein 2008, 21ff; SEEP 2008; 4ff; Stamm et al 2006.

to wider market trends.[130] It should also be considered that there are two main types of linkages which may need to be developed; geographic linkages, and sector-based linkages (Box 33).

Value chain projects are primarily concerned with sectoral linkages, and aim to improve relationships within a specifically-chosen economic sector. The choice of this sector is dependent on local conditions, and varies from situation to situation.[131] The dairy industry was selected for support in Serbia,[132] for example, while cotton production was promoted in Uganda.[133] Value chain interventions have the potential to address PSD on a range of scales; from the micro-level, considering individual firms, to the meso-level, working with business associations and regional distribution, right up to the macro-level and international trade agreements and foreign markets.[134] This makes them particularly attractive to donors considering post-conflict programming. Value chains in post-conflict contexts are currently receiving a lot of attention from some donors, specifically because they offer opportunities for development on all scales.[135]

Value chains, and market linkages more generally still constitute direct intervention, even if different scales of operation are adopted. Insights gained from market linkage schemes can be very useful when determining the shape of macroeconomic reform, and good reform should also bring many benefits for market linkages. Nonetheless, developing local markets and fostering connections between economic actors necessarily involves direct engagement with firms, individuals, and associations.

4.2.2 Promoting Business Associations and Community Groups

Another way to make systemic changes is by encouraging individuals, firms, and communities to join together in business associations and co-operative groups. Such groups are likely to have a stronger voice in dealing with central government, and will be better able to negotiate and organise favourable conditions for their members. They are also a means of increasing resilience and buffering risk, as they can act as mutual support associations in times of stress. As such, they are a means of supporting both the livelihoods strategies of individuals and households, and also the growth of the local private sector.[136]

The promotion of such groups is also useful tool for peacebuilding and reconciliation in a post-conflict setting (Box 34). The forging of such groups builds up social networks and inter-dependence between different sections of society. They are therefore a good way of building up social capital and trust in a fragmented social landscape. In particular, such initiatives can be especially effective if participation is deliberately broad, including members of different groups and people from opposing sides in a conflict.[137]

However, if such groups were already active during a conflict itself, they should be supported with caution. They may cater for the interests of only one part of the wider community, and would therefore exacerbate, rather than diminish, the divisions in society.[138] Conflict sensitivity, and a wider awareness of the conflict situation, is vital in ensuring this.

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[130] Aaronson et al 2008.

[131] Gündüz and Kline 2008, 6.

[132] Aaronson et al 2008.

[133] USAID 2008.

[134] For more information of value chains, and different donors' activities within the field of value chain promotion, see www.value-chains.org.

[135] Gündüz and Klein 2008; Saperstein and Campbell 2008.

[136] Goovaerts et al 2006, 23; Herzberg 2004 and 2007; IA 2006; McVay 2005; Parnell 2001; SEEP 2007; UN 2008, 11.

[137] Goovaerts et al 2006, 10; Gündüz et al 2006, 30ff; IA 2006; Mierke 2006, 10-11; Saperstein and Campbell 2008, 36.

[138] Parnell 2001, 10.

Box 34.
Business associations and peacebuilding

Business for Peace Alliance (BPA) in Sri Lanka

Business associations have potential for peacebuilding as well as for stimulating economic growth. Not only do these groups have a direct impact; bringing together individuals from different factions and provide a forum for regular interaction; they can also be influential on a much wider scale. However, it is important that if business associations are to engage in broader peacebuilding, they should be representative of as broad a range of interests as possible.

Private sector actors have been involved in peacebuilding activities in Sri Lanka since the height of the civil war in the mid-1990s. It was not until 2001, however, that leaders from the Sri Lankan private sector formally launched a 'business for peace' initiative. Sri Lanka First (SLF) was set up by representatives of the major industrial and commercial interests in Sri Lanka's capital, Colombo. As well as working to raise the profile of the peace campaign by organising public demonstrations, and media coverage; SLF held consultations between conflict actors and both organised and mediated peace negotiations between opposing political parties.

However, SLF was a big business organisation - provincial business and smaller-scale enterprises were not represented. The economic policies which followed the 2001 peace were not perceived as fair, or as spreading the economic benefits of peace over a broad enough geographical area. The Business for Peace Alliance (BPA) was established in 2002, with the support of UNDP and International Alert, as a broader forum for Sri Lankan private sector actors. 17 regional chambers of commerce and represented in the BPA, ensuring a wide geographical coverage and making it more likely that a range of voices are heard. The BPA engages its members in practical ways; facilitating interaction at its regular meetings, organising inter-regional trade, and lobbying for more consideration of SMEs in central economic policy. The BPA is therefore a practical counterpart to the higher-level work of SLF, and is a vehicle for encouraging broad-based and participatory peacebuilding.

References: Mayeh and Salih 2006; Paffenholtz and Vijayarajah 2005; Venugopal 2008.

The way such groups function, and the constituency they are meant to cater for, are therefore important issues. Business associations can either focus on specific sectors or trades,[139] or bring together entrepreneurs from different sectors within a single area.[140] Community groups have a wider membership, and can serve both to embed the interests of the local private sector in the rest of the community, and to give the community as a whole an interest in the local private sector.[141] All of these types of group are legitimate recipients of donor support, but it is also important that donors encourage these groups to be sustainable in the long run. Crucially, this involves being run on commercial principles.[142]

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[139] E.g. Farmer's associations (Alex et al 2006).

[140] Herzberg 2007.

[141] Parnell 2001; Wheeler et al 2005.

[142] Parnell 2001, 11; Stamm et al 2006.

4.2.3 Access to Employment and Vocational Training

Improving access to employment and providing vocational training is another form of direct intervention with major systemic effects. It is immediately important in the early post-conflict stages, as large numbers of people will have lost their livelihoods during the course of a conflict, and will need help in finding new ones. Not least amongst these are ex-combatants, who are liable to agitate for a return to violence if they are unable to find new occupations.[143] The immediate creation of employment, whether in the form of paid jobs, apprenticeships, or vocational training schemes, is therefore vital (Box 35).

Employment and training needs will change over time, and immediate, short-term employment schemes will have to give way to schemes aiming for the creation of sustainable jobs. For this to happen however, labour exchanges may need to be set up to allow the labour market to function more smoothly, and the labour force will need to be trained. Donors can directly intervene in both of these ways to facilitate the transition to sustainable employment.[144]

Training can target existing livelihoods strategies in a practical way; focusing on specific technologies or skills to enable people to make use of new assets, or to work with their existing assets more efficiently. It can also work to improve the business skills of

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Box 35.
Temporary employment schemes

USAID's Temporary Employment Project in Timor Leste

Immediately after the outbreak of peace in 2000, USAID's Office of Transition Initiatives (OTI) sponsored a Temporary Employment Program (TEP) to create short-term jobs in Timor Leste. At the time, there were 250,000 refugees and displaced people in West Timor, a quarter of the total population of 1 million. The TEP was designed to fulfil an urgent need for immediate employment, and to buy some much-needed time before longer-term solutions could be found for the problem.

 Under the TEP, each of Timor Leste's 13 districts received $100,000 to cover the salaries of workers for 6-8 weeks at a standard daily pay rate of $3.21. OTI also gave each district $90,000 for tools and equipment, as the work projects adopted ranged from roadside clearance and drainage work, to buildings repair and the construction of sports facilities. Additional installments of fund were made available as necessary. OTI highlights the fact that short-term job creation schemes such as the TEP are effective as transitional stop-gap measures, and recognised that they should be coordinated with the start of more sustainable employment programmes, and also planned with these in mind. The Timor Leste TEP fulfilled its immediate aim of providing short-term employment, but set a standard for daily wages which was later racheted down as the unskilled labour market began to function again.

References: Krumm 2008.

Additional comments from: Donald Krumm and Justin Sherman (USAID/OTI)

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[143] OECD/DAC 2007, 5ff; UN 2008; USAID 2007, 35ff.

[144] Goovaerts 2006, 3ff; ILO/HEI 2006; MacDonald 2006, 23ff; Mierke 2006, 16ff; UN 2008; USAID 2007, 39.

entrepreneurs, giving them a better understanding of credit and financial systems, good business practice etc (Box 36). Finally, training can focus on basic skills, such as literacy and basic numeracy.

Vocational training can be targeted at particular groups within society. The youth are often in particular need of training, because formal education systems are often disrupted during periods of war, and they may therefore lack literacy and other basic skills.[145] Training schemes can also be used to target ex-combatants, as former soldiers are also likely to lack the skills and experience to allow them to make a peacetime living. In providing vocational training, however, it is important to bear in mind what skills employers want, and to match provision to demand.[146]

A lack of education and training is one common barrier to employment in a post-conflict situation:

health and mobility is another. There are likely to be many individuals whose capacity for work is impaired by war wounds or conflict-related disabilities. This should also be borne in mind when considering the labour market.

4.2.4 Microfinance

Financial services are often non-functioning in the aftermath of a conflict. Central and commercial banks will not operate as normal, and may not be equipped to serve the most vulnerable sections of the population even if they are operational. It is these sections of the populace, however, which may be in most need of financial services on a modest scale. In particular, financial services will be necessary to kick-start economic activity in the immediate post-conflict period, and to allow enterprises to grow in the medium to long term. Such financial services include access to credit,

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Box 36.
Training in business skills

SIYB in Afghanistan

In June 2008, the IDEA Network, part of the Dutch Army, initiated a new programme in the Uruzgan Province of Afghanistan to provide business skills and entrepreneurship training for SMEs. Training takes place in small classes of 8-10 over a 3-week period, using the ILO's Start and Improve Your Business (SIYB) package. Materials first had to be translated in Pashtu, and modified for students with limited literacy by replacing long passages of text with diagrams and images.

The programme is still in its pilot phase, and is currently being tested in three different locations within the province. The programme staff are exploring ways in which the SIYB training can be linked to 'real world' experience in Afghanistan; and are combining classroom training with counselling services, eligibility criteria for access to microfinance and credit, and community projects such as sun shelters in the bazaar. It is hoped that grounding the training in everyday experience and future business opportunities will make it more effective, and will help to cultivate a dynamic local economy in the Uruzgan Province.

Source: Dierderik Conijn (Dutch Military)

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[145] Donahue et al 2006; Dzinesa 2006; James-Wilson and Hall 2006; Nagarajan 2005; OECD/DAC 2007, 6; UN 2008.

[146] MacDonald 2006, 23ff; Microlinks 4.

Box 37.
Microfinance being phased in gradually

IFAD and Microfinance in Rural Rwanda

IFAD's Rural Small and Microenterprise Promotion Project (PPMER) in Rwanda was initially started in 1996, and is currently in its second phase. Rwanda has a long tradition of rural enterprise working alongside agriculture, owing to the relative scarcity of agricultural land. However, when first phase of the PPMER project was initiated, only two years after the Rwandan genocide, population displacement and instability was still a problem, given that the population had dropped from 7.7 to 4.4 million between the years 1990-1994.

Phase I of PPMER therefore focused on building capacity in rural communities, providing training in literacy, numeracy, and other essential skills. Of the 5,446 SMEs helped in this first phase, 78% increased in value over the course of the project, and the proportion considered to be creditworthy was increased from 32% to 57%. In 2003, once the capacity for economic activity in rural communities had been gradually built up in this way, PPMER entered its second phase, offering credit and other financial services. Continuity between the two project phases was ensured, with the individuals trained in Phase I given the opportunity of accessing microfinance services in Phase II. Given the nature of Rwanda's post-conflict situation, it was felt that microfinance should not be introduced immediately, but phased in only gradually, after the rural population had settled and entrepreneurial capacity had been built up.

References: Camilleri 2007; IFAD 1996 and 2003.

micro-insurance, and savings. Of these, however, access to credit is the most urgently-needed and frequently-discussed. There may be opportunities for microfinance initiatives to expand into insurance and savings services during the later post-conflict stage.

Access to credit has indisputable benefits in a post-conflict situation. They are especially important to all fast start-ups. However, there is some disagreement over when credit should be offered in a post-conflict situation. Certain characteristics of the post-conflict environment, such as an unstable population base and high mobility, make lending less viable, and it has also been pointed out that it is preferable to build capacity amongst potential

beneficiaries before offering credit (Box 37).[147] Amongst some donors, therefore, there is some hesitation about supporting microfinance projects at an early stage.

Others hold that microfinance is an attractive option for immediate post-conflict programming (Box 38).[148] They would argue that the essential conditions for offering credit are actually very few and easily met, and should not be confused with the preferred conditions for offering credit, which are not strictly necessary (Box 39). Some have even suggested that credit can potentially be offered to mobile populations, especially if it is linked to returning home for refugees and IDPs.[149]

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[147] Camilleri 2007.

[148] CGAP 2004; Earne et al 2008; MacDonald 2006; Nagarajan 2004; Nourse 2004; SEEP 2004 and 2008, 23ff; Trischler and Bartocha 2007.

[149] Nagarajan and McNulty 2004; Nourse 2004.

Box 38.
Microfinance starting very early

MISFA in Afghanistan

The Microfinance Investment Support Facility for Afghanistan (MISFA) was set up in 2003 at the request of the Afghan government, as a central pool for donor funding and coordinated support facility for MFIs in Afghanistan. One of MISFA's main priorities was making microfinance available to as many people as possible, as fast as possible. MFIs were encouraged to broaden their outreach rapidly, and to expand their client base quickly across a wide geographic area.

Studies have shown that this strategy did manage to build up the microfinance sector and attracting clients. In 2006, Afghanistan could be compared favourably with other post-conflict countries in terms of both total numbers of borrowers, and also the average number of borrowers per MFI (see table below). However, the studies also suggested that while MFIs had a wider outreach than in other post-conflict countries, they were generally less sustainable. MISFA is now working to build capacity in the new microfinance sector, and foster more long-term sustainable planning.

	Afghanistan	Sierra Leone	Bosnia & Herzegovina
Total no. of active borrowers	197,278	39,122	29,486
Avg. no. of active borrowers / MFI	15,175	4,347	3,686

References: MISFA 2006; Nagarajan, Knight and Chandani 2006.

Overall, there is no hard and fast rule about exactly when microfinance initiatives should be implemented in post-conflict environments. There is agreement, however, that basic principles of good practice should be adhered to. These include maintaining a high-quality portfolio, applying market rates for interest, and planning for full cost recovery. Another point of agreement is that microfinance interventions should be kept separate from relief work, and should be focused specifically on achieving development goals.[150]

However, there should be innovation in other aspects of microfinance programming. It is

particularly important for post-conflict MFIs to offer a wide and flexible range of different products, tailored to the needs of a range of different borrowers.[151] For example, credit can be offered to groups, such as community organisations or business associations, rather than individuals. In addition, normal funding cycles need to be extended, as it may take much longer before MFIs become commercially viable. Finally, networks of microfinance providers are particularly important in a post-conflict setting, as these allow for the pooling of information and increased lobbying for economic policies which take SMEs and small investors into account.[152]

[150] CGAP 2004; SEEP 2004.

[151] Ersenkal and Wolf Fellow 2007; Hudson and Seibel 2007; SEEP 2004, 2; Shaw and Clarke 2004.

[152] SEEP 2006.

Box 39.
The essential conditions for offering credit

Within the post-conflict environment

- Basic security must be guaranteed
- Traceable, although not necessarily settled, population
- Economic activity and a cash economy

Within the donor agency

- Qualified staff
- Long-term funding cycles

4.2.5 Targeted Support

This is one of the most traditional forms of donor assistance, and involves targeting specific individuals and firms for direct donor support. Such support can be delivered in the form of supplies, equipment, other assets, or entrepreneurial advisory services. While targeted support does still have its place within the overall repertoire of donor activities, such interventions however do not have the breadth of impact which is crucial in a post-conflict setting.

Despite its limited scope for long-term change, the distribution of some supplies and equipment may be helpful for local private sector actors, and is likely to form part of donor's post-conflict activities in one form or another.[153] Interventions falling under this category may be a component of relief, rather than development efforts. As discussed above, it is important that such interventions are carried out with some sensitivity to overall development goals, even if their immediate goals are short-term relief ones. Failure to integrate market considerations into relief work can undermine the private sector in the long term, removing competition and incentives for production.[154]

It is also important the commodities distributed match the commodities supplied to the needs of the recipient population. Simply handing out supplies and equipment will not be effective unless they meet the needs of the local population – development distributions should be determined by demand, not supply.[155] Some knowledge of existing private sector activity is important for this, as is local consultation. Distributing one type of input commodity may not always be effective if several different types of input are needed.[156]

In addition, it is important that beneficiaries have the necessary knowledge, skills and training to make the most of their new assets. The post-conflict situation can provide a valuable opportunity to introduce new technologies and equipment to make the local private sector more efficient or equitable. However, such innovations can do little to help unless individuals are both willing and able to make full use of them.[157] Two issues therefore need to be addressed here: conservatism within the local private sector, and technical knowledge. Simple distributive interventions should therefore be coordinated with other forms of more systemic assistance, including work on microfinance, market linkages, community groups and vocational training.

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[153] SEEP 2008, 17ff.

[154] Miehlbradt and McVay 2006, 66ff; SEEP 2007.

[155] Goovaerts et al 2006, 14ff.

[156] Longley et al 2006, 23ff; Sperling et al 2004.

[157] Longley et al 2006 and 2007.

4.3 The 'Investment Climate' Approach

Interventions favoured under this approach are aimed at creating a suitable investment climate in a post-conflict country. 'Investment' here relates both to foreign and local investment, and a positive investment climate is one which enables and even encourages individuals to engage in complex economic activity. Programming is directed towards improving the economy as a whole, rather than directly helping specific individuals or businesses. It includes:

- Legal reform and business regulations
- Strengthening financial institutions and macroeconomic frameworks
- Rebuilding infrastructure
- Reforming trade policy
- Encouraging foreign direct investment
- Donor country policy reform

It is argued that changing a dysfunctional economic system is crucial in a post-conflict situation, and that if this is not done immediately there is a danger of returning to conflict. Only by laying the foundations for broad-based economic growth can donors ensure future peace and stability.

4.3.1 Legal Reform and Business Regulations

The post-conflict private sector is characterised by informality which allows for predatory elements to flourish unchecked. The situation is often not helped by the state's central economic policy and regulatory system, which may be outdated, confusing, and serve to discourage formal economic activity. It is important to create a legal and regulatory environment where enterprises are able to start up and to grow without being stifled by economic policy and regulations (Box 40).[158]

Box 40.
The ease of doing business in different countries

Country	Days needed to start up a business	Number of tax payments per year	Days needed to register property	Years needed to close a business
Angola	119	31	334	6.2
Australia	2	12	5	1.0
Burundi	43	32	94	No practice
DRC	155	32	57	5.2
Haiti	202	53	405	5.7
Liberia	99	37	50	3.0
Netherlands	10	9	5	1.1
Timor Leste	82	15	No practice	No practice
US	6	10	12	1.5

From the World Bank's *Doing Business 2008*.

[158] DCED 2008b.

Box 41.
Potential areas for legal and regulatory reform

- Property law
- Company law and business startup
- Licensing
- Corporate taxes
- Goods-based taxes
- Competition law
- Contract law
- Dispute resolution
- Labour laws and administration
- Trade regulations and customs
- Judicial systems

Many donor interventions therefore focus on advising post-conflict governments about economic policies and offering them help in drawing up new legal and regulatory frameworks (Box 41). Of prime importance in this has been the drive to 'cut red tape'. Overall, this tends to mean reducing the amount of regulation which governs the setting-up and management of a company, and streamlining regulatory processes.

The easier it is simply 'to do business' in a country, the more likely it will be that legitimate and formalised private sector activity takes off.[159] This is especially important in a post-conflict situation as formalising the economy aids the transition from war to peace economy, and encourages engagement with the state in a way which bolsters state authority.

War economies are characterised by informality, and as such have more flexibility for illegal and unethical activity, and so it is in the interests of a lasting peace to encourage entrepreneurs to engage in a legitimate and formal peace economy.

In the process of promoting regulatory reform, it is important for donors to engage with the local private sector. Not only does this make the reform process more efficient in achieving the desired results, but it also opens up channels of communication between the government and the private sector, and paves the way for a continuing relationship between the two (Box 42).[160]

It also means that the central state will increase its opportunities for gaining revenue through taxation, thereby increasing its practical capacity. In addition, having a clear and transparent set of business regulations will discourage corruption and hopefully break the connection between public office and private business interests. This would strengthen not only the private sector, but also make government institutions run more smoothly themselves and increase trust in the state.

Property rights are a related issue, as these essential for a fully-functioning private sector. Property rights are often completely ignored in times of war. Re-establishing them is part of safeguarding the rule of law, and as such, is essential in a post-conflict environment. The re-establishment of basic property rights can therefore be thought of as a pre-requisite for PSD interventions.

Property rights, and claims to land in particular, are often very sensitive after a conflict, and it is important that the initial re-imposition of property legislation is carried out in a conflict-sensitive way. Unequal property distributions along factional, ethnic, or other group lines can potentially sow the seeds of future conflict, and property laws, like other business-related regulation, may have to be rewritten, rather than simply restored.

4.3.2 Strengthening Financial Institutions and Macroeconomic Frameworks

Donors can also provide assistance and advice to strengthen a state's financial institutions and macroeconomic foundations (Box 43). Interventions in this area can have an immediate impact on

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[159] Herzberg 2004; Mierke 2006, 14ff; USAID 2007, 41ff; World Bank 2008.

[160] Masinde et al 2008; Nicholas 2008.

**Box 42.
Engaging the local private sector in regulatory reform**

The Bosnia 'Bulldozer Initiative'

In 2002, the 'Bulldozer Initiative' was launched by the UN's Office of the High Representative in Bosnia and Herzegovina, and supported by the EC, OHR, IMF, USAID, and the World Bank, as well as several bilateral funding grants. The initiative set its goal as cutting red tape - it aimed to 'bulldoze' through some of Bosnia-Herzegovina's (BiH) impractical or defunct business regulations, thereby stimulating greater private sector activity and entrepreneurship.

The scheme deliberately engaged local business; using a travelling 'roadshow' to publicise the project throughout the different regions of BiH, and advertising the scheme through the use of the mass media. This intensive public awareness campaign resulted in about 250 suggestions sent to the Bulldozer Committee by Bosnian private sector actors, covering all areas from company law to taxation. Of these, 50 of the most practical of these were eventually selected 50 to push through parliament. Although the slogan used by the initiative was '50 reforms in 150 days', the process ran overtime slightly by 37 days.

The reforms actually made by the Bulldozer Initiative did improve the business enabling environment in BiH by cutting some of the red tape which restricted entrepreneurial activity. However, the initiative's most important contribution was in changing public attitudes and perceptions. By reaching out to the local community and business associations, it attracted a lot of public attention within BiH; opening up channels of communication between the private sector and the government, and raising the profile of business reform amongst the public. As it was publicised in the international media as well, the initiative also contributed to improving BiH's image amongst international investor, by promoting a view of BiH as progressive and business-friendly.

References: Herzberg 2004 and 2007.

**Box 43.
Reform of financial institutions and macroeconomic structures**

IMF/Sida and the Central Bank of Afghanistan

Immediately after the fall of the Taleban in 2001, several donors expressed interest in reforming Afghanistan's financial institutions and macroeconomic structures. Different donors, however, undertook different roles within this process. In 2002, the IMF and Sida set up a fund to provide Swedish technical assistance to Afghanistan's central bank, the Da Afghanistan Bank (DAB).

After an initial period of offering assistance more broadly across monetary policy, accountancy, and bank reorganisation, this fund now provides more specialised assistance for training and human resources. In 2004, a detailed assessment of DAB's training needs was undertaken, and the DAB Training Facility was established as a permanent centre for staff training. The Facility provides specific courses for different departments within the bank, as well as generic training in IT, accounting, economics, central banking operations, management and English language. By investing in the central bank's staff and building capacity for the future, the IMF/Sida fund is working to build the foundations of a stable economy and strong financial institutions in Afghanistan.

References: DAB 2005; Sida/IMF 2004.

economic activity straight after a conflict. For example; the ready availability of hard currency in low-denominations will greatly facilitate economic activity.

Programming in this area is also important the long term, both from the perspective of the business enabling environment, and nationbuilding. Efficient, accountable, and transparent financial institutions can encourage trust in central government and strengthen the authority of a weak state.

Macroeconomic stability can be crucial for a post-conflict government facing fragility, limited practical capacity, and low levels of legitimacy. Donors can help host governments in managing the state budget; helping them to control their spending and keep track of their receipts. In addition, reducing government borrowing and offering budget support are also options for donor governments.

It is often thought that having sound macroeconomic foundations are a necessary precondition for PSD. However, programmes focusing on market-integrated relief, microfinance, and other forms of direct interventions prove that this is not the case, Good financial institutions and macroeconomic structures are rarely in place in the aftermath of a conflict, and PSD work may need to start in their absence.

However, as building these up does take some time, it is important to address macroeconomic issues relatively early in the post-conflict phases so that further growth and development will not be hampered in the medium and long term.[161] Specifically, it may be necessary in a post-conflict situation to stabilise the currency, rein in inflation, and maintain steady prices. These are all problems which, if they are left unchecked, will seriously hinder all efforts at economic development.[162]

4.3.3 Rebuilding Infrastructure

A healthy private sector cannot flourish without basic infrastructure. This infrastructure can be

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[161] MacDonald 2006, 19ff; Mierke 2006, 28ff; USAID 2007, 23ff.

[162] USAID 2007, 23ff.

Box 44.
Challenges and benefits of infrastructure programmes

Challenges

■ Multiple stakeholders with potentially conflicting interests

■ Corruption and a blurred public-private divide

■ Timing mismatch between funding cycles and local capacity

Potential benefits

■ The local private sector and wider population will benefit from functioning infrastructure

■ The post-conflict government will benefit from increased legitimacy if infrastructure is provided

■ Private-sector actors can benefit from contracts and tenders

■ Private-sector actors can benefit from supplying projects and procurement

■ Rebuilding projects can create many short-term jobs

■ Maintaining infrastructure can create some skilled long-term jobs

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divided into two main categories. The first of these is infrastructure which allows businesses to function on a daily basis, and includes basic input supplies such as water and electricity. The second type of business-enabling infrastructure is that which facilitates connectivity and commerce. This second category includes both transport infrastructure such as roads, railways, ports and airports, and also communications infrastructure such as phone networks.

Both of these categories of infrastructure are likely to have been damaged during the course of a conflict, and may not be functioning in a post-conflict context. However, both are also crucial
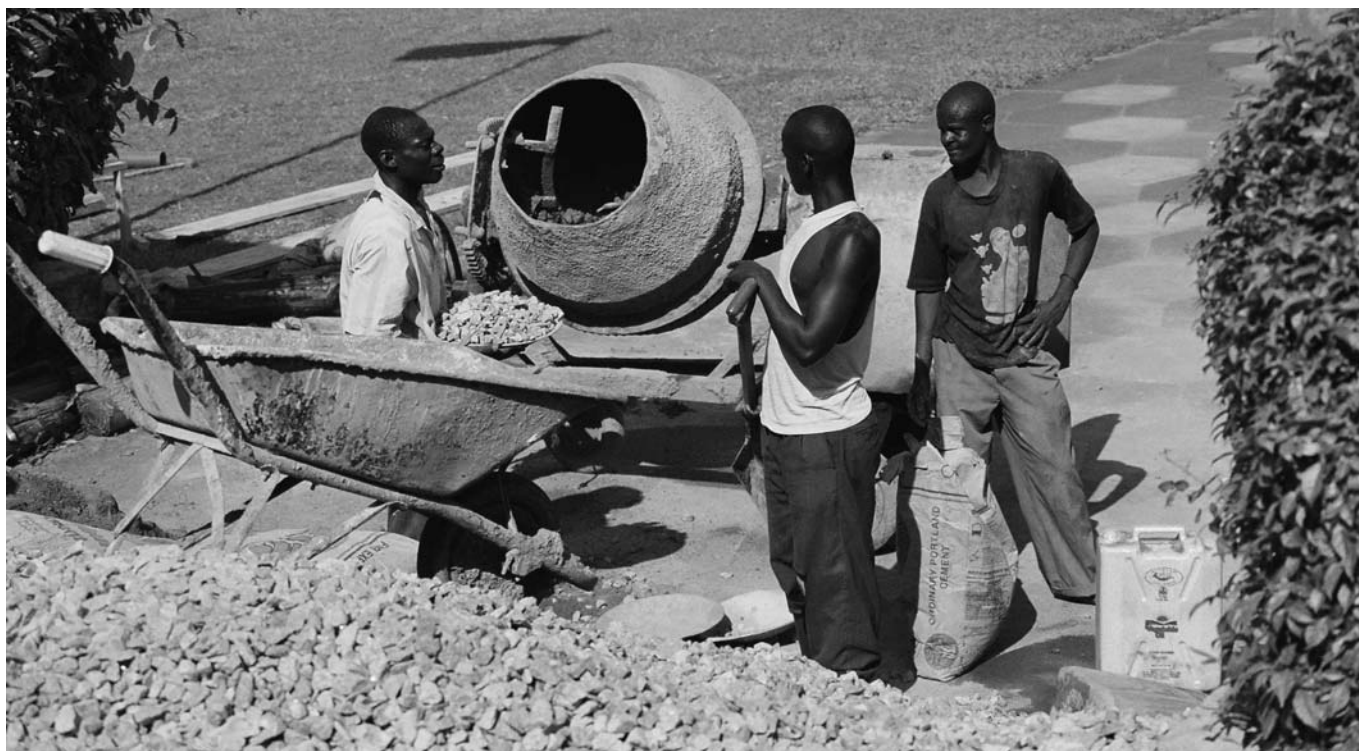
© ILO/Voeten

to allow enterprise to develop and the overall economy to grow. The rebuilding of both operational and connective infrastructure is therefore is therefore vital in a post-conflict situation.[163]

Rebuilding infrastructure, however, can be costly, time-consuming, and politically sensitive. There are a number of challenges which present themselves in infrastructure rebuilding projects, as well as a range of potential benefits (Box 44). A range of different actors is likely to be involved, including: donors, central government, local government, civil community organisations, local private contractors, MNC contractors, and foreign investors, not to mention the local conflict-affected population.[164]

Balancing the interests of these various stakeholders is not easy, and donors will need to consider conflict-sensitive ways of offering tenders, awarding contracts, hiring labour, and project financing. In particular, transparency and anti-corruption measures will need to be taken from early on in the rebuilding process.[165] Donors will, however, also need to consider trade-offs between the ideal of

maintaining state control over infrastructure and the efficiency of allowing the private sector to take responsibility. Striking this balance, and different types of PPPs, is discussed in Chapter 3.3.1 above. Infrastructure schemes are a particularly sensitive case, because the stakes are so large and the sums of money involved are so high. Because of this, it is especially important to consider who the private-sector beneficiaries of infrastructure projects will be, to ensure that political or military actors do not stand to gain personally from awarding contracts and tenders.

Another major problem for infrastructure projects is one of funding cycles. In a post-conflict situation, funding spikes in the early post-conflict phases, and then gradually decreases over time. However, there is rarely the capacity in terms of skilled labour and organisational ability to carry out major infrastructure work during this early period when the money is available. By the time capacity has been built up however, the funding has usually dried up. Making use of private contractors can help to remedy this problem, but a full solution can only be found in reform of donor agencies' funding cycles.

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[163] Gallagher 2007; USAID 2007, 79ff.

[164] Anand 2005, 7ff; MacDonald 2006, 10ff.

[165] MacDonald 2006; Schwartz et al 2004; USAID 2007, 77ff.

Infrastructure projects require a long-term perspective and sustained investment, and donor funding must support this.

It is possible, however, for infrastructure work to benefit the wider community and the local private sector as well as just a few large contracting companies. Procurement strategies can build on the existing private-sector and local labour can also be used for construction work, providing jobs and livelihoods for the post-conflict population. Infrastructure projects should therefore seek to involve local communities and businesses as much as possible.

4.3.4 Reforming Trade Policy

The wider investment climate, however, extends beyond the boundaries of any single post-conflict country. Donors can help create an environment where enterprises are more able to trade beyond national boundaries, accessing foreign markets in a way which is balanced and conflict-sensitive. Donors can advise governments on effective trade policies, which will encourage international commerce and thereby stimulate economic growth.

Brokering trade agreements between neighbouring countries is an important element of this work. Donors can provide some guarantees of security and fairness on behalf of the weak administrations of post-conflict countries if necessary, and can also encourage cooperative relationships between countries.[166]Good trade policies and friendly relations with neighbouring countries are important in a post-conflict situation, especially if border disputes or separatist claims may have contributed to the conflict.

In addition, this will allow for the import and export of goods. If done in a conflict-sensitive and fair way, this has two major benefits within a post-conflict economy itself: firstly, it will open up new markets for internal producers, and secondly, it will encourage competition within the country as new

goods will find their way in. Furthermore, if formalised cross-border trade is encouraged, this will also bring in much-needed revenues for the state, and can also create incentives for private sector actors to become part of the formal peacetime economy. Positive and equitable trading may also help to reduce the power of the predatory private sector, and reduce trafficking in war economy commodities.

In addition to brokering general trade agreements, policies regarding particular commodities can also be targeted. By adopting a value chain approach on a large scale, donors can stimulate an awareness of international markets, and foster business connections so that producers and processors in a post-conflict country can access these markets. Taking value chains to this level encourages the local private sector to upgrade to higher levels of commercialisation and competitiveness, and can also capitalise on the demand in donor countries for ethical goods.[167]

Help can also be offered to post-conflict governments in the areas of border control and trade tariffs. These will need to be simplified and rationalised, to strike the balance between bringing in revenues for the government, and discouraging commerce.[168] However, donor interventions in this area should not be a high priority in the early post-conflict phases. While it will be important to settle border and tariff issues in the long run, it is unlikely that the central state will have the capacity to be able to do this immediately after a conflict.

4.3.5 Encouraging Foreign Direct Investment

Post-conflict countries can benefit from foreign direct investment (FDI), as this can provide a kick-start to the economy at large. Attracting appropriate FDI can be difficult, however, as responsible investors are often unwilling to risk their money in unstable situations. Conversely, less scrupulous investors may be attracted to the

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[166] Gündüz et al 2006, 15ff.

[167] Gündüz and Klein 2008, 14; Saperstein and Campbell 2008, 32 and 44.

[168] USAID 2007, 71ff.

Box 45.
Features sought by foreign and local investors

Features sought by both foreign and local investors:

- Physical security and basic political stability
- Simple and streamlined business regulations
- Efficient and transparent regulatory bodies
- Clear and enforceable legal system
- Physical and communications infrastructure

Additional features sought by foreign investors:

- Ease of entry/exit for foreign nationals
- Macroeconomic stability for foreign exchange
- Coherent customs policy
- Local knowledge

opportunities for enrichment offered by the war economy. A post-conflict country's official risk rating can have a dramatic impact on its chance of attracting FDI.[169]

One important way in which donors can help stimulate FDI in a post-conflict country is by identifying the various administrative and practical barriers which act to prevent investment, and by recommending ways of removing them. This work is similar in its aims to streamlining business regulation for local companies, but is directed at encouraging foreign, rather than local investment. There are many areas of overlap between what foreign and local investors might want; including streamlined regulation, favourable corporate taxation, and efficient and transparent regulatory body, enforceable contract and property laws, and a function and fair judicial system. However, there are also differences between foreign and local investors (Box 45).

As well as supporting a better climate for FDI in a more generalised way, donors can also approach appropriate foreign investors directly. They can work with them by acting as guarantors, offering to shoulder some of the risk of operating in a post-conflict situation. This can be done both for MNCs who might need guarantees before starting to operate in a post-conflict country, and also for financiers who might need guarantees before committing their funds to uncertain schemes. Donors can also act as brokers for contracts and tender agreements between foreign investors and a post-conflict government, ensuring equitable and conflict-sensitive solutions. Finally, donors can act a source of local information for foreign investors, offering links to local resources and civil society.

While FDI has many potential benefits for a post-conflict country, it is important to encourage the right kind of FDI, rather than simply FDI in general. Investment should contribute to the host economy, rather than take from it, and donors must work to thwart the international predatory private sector as well as the local one.

4.3.6 Donor Country Policy Reform

Policy reform at home in donor countries is rarely discussed as a feasible PSD option, for a number of highly political reasons. Firstly, development agencies rarely have much interaction with home country government departments, and may exert little influence over them. Secondly, development goals and domestic agendas may be in direct opposition to each other. Calls for policy reform which may damage the commercial interests of donor country companies are unlikely to be given much of a hearing.

There are two main areas where donor countries could enact reforms which would benefit developing post-conflict countries:
- in trade policy, and
- in the regulation of MNCs.

Trade policies in donor countries can be adjusted to avoid protectionism and open up international

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[169] Agboll et al 2008; Schwartz et al 2004, 23.

markets to products from post-conflict countries trying to recover.[170] Current trade policies and agreements tend to be damaging to overall development goals; as they tend to ensure that it is easy for donor countries to export their goods to developing countries, but much harder for developing countries to export their goods to donor countries. Developing countries find it difficult to access donor country markets for two main reasons; prohibitive trade tariffs, and inability to compete in sectors such as agriculture where donor-country production is heavily subsidised.

Conversely, donor countries tend to ensure favourable trade tariffs for their exports to developing countries, which can have a detrimental effect on productivity and local industries in the developing country. Wholesale reform of this system would be extremely difficult to achieve, as donor governments are under pressure to protect their own home industries.

Trade-related assistance and development-aware trade agreements are a more practical way of countering these trends, and agencies can lobby for these. However, such agreements must be conflict-sensitive. Preferential trading agreements are limited to only a few products or industries, and this can be dangerous in a post-conflict situation, as it may encourage specialisation in a single economic sector, and reliance on one type of product. Such over-specialisation makes an economy unstable; narrowing opportunities, and making it more likely that horizontal inequalities will deepen. Trade policy reform, therefore, can be carried out to help post-conflict economic recovery; but this must be done in a conflict sensitive way.[171]

Another way in which donor countries can undertake policy reforms to help economic growth in post-conflict countries is in the regulation of MNCs. Many MNCs have their home bases in donor countries, but nonetheless operate in post-conflict and conflict-affected situations. As discussed in

Chapter 3.5 above, MNCs have the potential to affect a post-conflict situation either positively or negatively, depending on the way they conduct their activities. While voluntary codes of conduct and ethical associations do exist to help MNCs maximise their positive impacts and minimise their negative ones, none of these are yet legally binding.

There is therefore an opportunity for donor governments to engage more closely with issues of corporate responsibility and development, and to regulate the overseas activities of multinational companies to ensure that they are conflict-sensitive.[172] Donor governments tend to be unwilling to enact such legislation however, as MNCs can potentially move their home base to another country which does not have such tight legislation.

Policy reform in donor countries is a powerful tool for development, but it is a tool that donor governments lack the political will to use. Public support for such measures must be built up gradually, with voluntary initiatives such as the UN Global Compact laying the foundations for binding legislation along similar lines at a later stage. Development agencies have an important role to play here in raising public awareness of these issues, and generating popular support for reform.

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[170] Gündüz et al 2006; Oxfam 2007; Nenova 2004.

[171] Gündüz et al 2006; 19ff.

[172] Banfield 2007.

Chapter 5: Assessing the Impact of Programming
How's my driving?

5.1 Types of Assessment

There are two distinct things which need to be assessed in a post-conflict situation; the environment which shapes the conditions for intervention, and the intervention itself. The first of these in usually investigated in conflict assessments (Chapter 2.3), while the second is considered in monitoring and evaluation assessments. Therefore, the two main types of assessment are:

■ **Conflict assessments** of the situation. It is vital to consider the wider conflict context, and to map the conflict dynamics in order to improve programming. This should be revised regularly to take account of shifts and changes.

■ **Monitoring and Evaluation** of projects. It is important to monitor progress and determine changes to the project that might be needed, and also to consider the overall impact of a project, often at the mid-point or on completion of an intervention.

Both types of assessment are crucially important. To date however, attention has been focused mostly on the first of these; assessing the conflict situation and environment, so that strategies and programmes can be designed with a better understanding of the situation at hand.

More research is now starting to be done on assessing interventions themselves, rather than just the conflict environments in which interventions take place.[173] However, this work is still in its early stages and currently focuses on assessing the peacebuilding and conflict-prevention impacts of programmes. It has yet to consider their economic of PSD impacts.

Box 46.
Future directions in M&E

■ Reconcile different assessment tools and develop a shared assessment framework

■ Develop a methodology which integrates different stages of assessment

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Similarly, existing monitoring and evaluation assessments for PSD have not yet been adapted to consider peacebuilding and conflict-prevention aims. As post-conflict PSD is still a new discipline, evaluation methodologies which assess both the peacebuilding and the PSD impacts of a project have not yet been developed.

5.2 Measuring the Impact of Intervention

Assessing the results of donor intervention in any situation at all is a challenging issue. It is also controversial, and has recently attracted a lot of attention, especially in the context of the MDGs and the 2005 Paris Declaration.[174]

Several agencies are currently developing tools for measuring aid effectiveness, and the DCED is also active in this area. The PSD Reader in 2008 and subsequent Donor Committee activities have addressed questions of how to measure impacts, monitor progress, and evaluate success and failure. In particular, the DCED is currently developing a methodology that could enable donors to aggregate

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[173] OECD 2008.

[174] This can be viewed here.

their achievements in PSD. [175] If this is successful, it may also be applicable to post-conflict and other conflict-affected situations. However, post-conflict situations have their own particular characteristics, and success and failure must be measured in different ways than in 'normal' situations.

5.2.1 Operational Constraints to Post-Conflict Impact Measurement

There are many difficulties with post-conflict monitoring and evaluation, the most obvious of which are operational ones. Gathering primary data on the ground can be difficult at the best of times, but the practicalities of doing this in a post-conflict environment can make it almost impossible. [176] Social fragmentation and disrupted transport and communications networks prevent the flow of information, and political agendas can make it difficult to access open and unbiased opinions.

In particular, there will be factions with strong political interests in portraying the situation in certain ways. Finding trustworthy and reliable sources of information can therefore be very difficult. At one end of the scale, some groups will want to portray the situation as negatively as possible, to further discredit other groups. At the other, dominant groups might want to downplay the problems, and present the situation in a positive light. There can also be a less political desire on the part of some parties to 'gloss over' the seriousness of the post-conflict situation, and to deny tensions - in a kind of wishful thinking.

In addition to the greater difficulty in gathering reliable information, it is also often more difficult to construct randomly-selected control groups. [177] In situations of social fragmentation and entrenched inequality, comparisons can only be made between carefully-structured artificial samples, and often, groups may not be comparable at all.

Assessments might also be subject to the interests of agencies and donors, who are under particular pressure in post-conflict situations to report success. The politicised nature of self-assessment can be exacerbated in a post-conflict environment when different departments from the same donor government and different agencies are potentially competing for funding and support. [178]

5.2.2 Conceptual Problems in Post-Conflict Impact Measurement

Aside from these practical considerations, there are also conceptual difficulties with post-conflict monitoring and evaluation. What should we actually be measuring in a post-conflict situation? Even when working under 'normal' conditions, there is some uncertainty as to whether PSD should be measured in terms of poverty alleviation or economic growth. [179] In a post-conflict context, should PSD also be measured in terms of its value for peacebuilding, security and reconciliation?

For projects which adopt a 'working *around* conflict' approach, this is less of an issue. With purely economic goals, monitoring and evaluation can continue in 'normal' fashion, with the proviso that the project does nothing to damage the post-conflict situation further.

However, projects which adopt a 'working *in* conflict' or 'working *on* conflict' approach have conflict reduction and prevention objectives built into their overall goals. While development and peacebuilding goals will often be aligned, there are also likely to be instances where there is some trade-off required between the two, especially in terms of their long term and short term requirements. At the moment, there is a trend towards the increasing prioritisation of security over development goals, especially in the context of greater interaction between the development,

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[175] See the DCED website for more details.

[176] Cracknell 2008, 3.

[177] Tanburn 2008, 15.

[178] Cohen 2006, 11.

[179] Tanburn 2008, 20.

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defence and diplomatic departments of donor governments. This inevitably leads to more even more difficulty in assessing the impact of donor interventions: whose criteria should we be working from, and whose should take precedence?

Given the complex inter-relationship between conflict and poverty, another major problem in assessing the impact of donor programming in post-conflict situations lies in understanding chains of causality. It can be difficult to attribute changes to donor programming at the best of times.[180] This is even more difficult in a post-conflict environment. Separating out what effects can be attributed to a specific donor intervention, as opposed to more general improvements in the security situation or growing population stability, for example, can be difficult to assess with any confidence.

5.2.3 Post-Conflict Monitoring and Evaluation

Because of the practical issues surrounding operating in a post-conflict environment, monitoring

programmes whilst they are still in progress can be difficult.[181] However, it is important that projects are monitored regularly during the course of their implementation, as part of normal supervision processes. This is especially important in a post-conflict setting because of the unstable nature of the situation. Being flexible and adapting quickly is important in an environment which is constantly changing.

But it is not only the developmental effects of intervention which must be kept under close and frequent review, but also the more general societal effects. There may, for example, be unintended impacts that an intervention may be having on the conflict situation around it, undermining peace, security and development in the long run. If carrying out an intervention is having any negative effects on peacebuilding and reconciliation, this must be recognised and addressed immediately, rather than being identified only in retrospect in a final evaluation.

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[180] Tanburn 2008, 11.

[181] Bagwitz et al 2008, 101.

Box 47.
Examples of areas for measurement and possible indicators

Category	Goal	Possible Indicators
Peacebuilding	Reconciliation of different factions	Number of business associations with joint membership and/or leadership
		Number of value chain linkages between factions
	Reduced horizontal inequalities	Number of minority groups in employment / training
		Average educational level of different groups
		Average incomes of different groups
		Diversity of labour force within specific economic sectors
Poverty alleviation	Sustainable employment	Number of people employed in a given area / sector
		Average length of time employed
Economic growth	Macroeconomic stability	GDP
		Rates of inflation
		Diversification of the economy, avoiding reliance on primary commodities
	Reduce the informal economy	Number of businesses registered
		Ease of registering a business (e.g. number of days needed)
	Increased sector productivity	Average production levels per producer
		Average processing levels per processor
		Average sales figures for commodities

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In addition to this, it is also important to review the security situation in a post-conflict environment - not only for the safety of staff members, but also as this will have a substantial impact on how the intervention functions from a practical perspective. Staff should observe risk management strategies and there should be a coherent plan of action if the operational risks are deemed to have become too high.[182] While the development impacts of an ongoing programme may not always be clear, therefore, work in progress should nonetheless be monitored for its conflict-related consequences, and the conflict-prone situation should be continually reassessed.

Overall, there is therefore not yet any standard way of assessing the impact of donor interventions in

post-conflict situations. Where they have been carried out, reviews have been piecemeal and focused on the specific case in hand rather than broad in their view. As with conflict assessments (Chapter 2.3), there is therefore much scope for reconciling the different methods and practices of M&E and for working towards a more coherent and universally-applicable standard.[183]

5.3 Integrated Assessment

Broader trends suggest that monitoring and evaluation can only be done in relation to the initial pre-intervention situation. It is widely agreed that mechanisms for impact assessment should therefore be integrated into the design from the outset.

In a post-conflict context, the situation is particularly volatile, and programming can have impacts in many unforeseen ways. There is much scope for integrating conflict assessments with monitoring and evaluation assessments in post-conflict situations.

Key goals for each intervention should be set, with reference to pre-intervention assessments. Indicators of change in each of these key areas should also be identified using these early assessments.[184] The goals and key areas for measurement will be different from project to project, depending on the aims of the project itself.[185] The indicators used to measure change will therefore also vary. Many schemes focus exclusively on economic indicators – looking for chartable improvements in the overall economy or in numbers of individual beneficiaries.[186] Others, however, include indicators of social harmony and integration as measurements of peacebuilding.[187] Box 47 below lists a range of some common key areas for measurement, and some indicators which could be associated with them.

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[182] Bagwitz et al 2008, 103ff.

[183] SEEP 2008, 144ff.

[184] Bagwitz et al 2008, 96ff; Cohen 2006; DCED 2008A.

[185] Bagwitz et al 2008, 111.

[186] E.g. Herzberg 2004, 21.

[187] E.g. Mierke 206, 44.

Chapter 6: Conclusions and Future Directions

6.1 Conclusions

It is now being more widely recognised that private sector development has a crucial role to play in post-conflict, and other conflict-affected, situations. However, there is still some uncertainty as to what distinguishes post-conflict PSD from PSD in other situations, and how post-conflict PSD should be carried out. This Review aims to provide an accessible introduction to the subject, considering these fundamental questions, and presenting an overview of the current literature and practice. In doing so, this Review contributes to the development of a common language and vocabulary for future discussions on the subject.

This Review also seeks to tease out the differences in approach between donor organisations, and to highlight areas of both consensus and disagreement. Key areas of agreement include: the potential role of PSD in post-conflict contexts, the need for conflict sensitivity and detailed pre-intervention assessments, and the importance of engaging with a wide range of post-conflict stakeholders and partners. These points form some of the basic principles shared by donors currently working in post-conflict PSD.

However, putting these principles into practice has not always proved easy. While the value of post-conflict PSD is becoming more widely recognised, the relative importance of PSD in relation to other forms of intervention remains disputed. Relief work, security, and nationbuilding are all vital areas for donor activity, and have sometimes been prioritised over PSD. In contrast, it is argued here that PSD should not be a separate and isolated form of programming, but rather that PSD is most effective when integrated into other forms of intervention as well (Chapter 1).

Not just development bodies, but also MNCs and humanitarian organisations, are being encouraged to build conflict sensitivity into their work (Chapter 2). Donors are currently active in the field of conflict assessments, and this will enable more conflict-sensitive and efficient programming in the future. However, different agencies have developed different assessment methodologies, and there is scope in the future for a more standardised approach to assessment. This is true, not only of pre-intervention assessments, but also of post-conflict monitoring and evaluation schemes (Chapter 5).

Post-conflict situations involve a broad range of different partners and stakeholders, and PSD must engage with these if it is to be conflict-sensitive and effective (Chapter 3). Within the wider donor organisations, development bodies will need to work with humanitarian relief actors, diplomats, and military personnel, as part of '3D' (Defence, Diplomacy and Development) or Whole of Government approaches. To produce the best results, donors will also need to work together, and there is much scope for increased donor coordination in post-conflict areas. Outside the donor community, potential partners in post-conflict PSD include bodies traditionally thought of as being suitable development partners (including host governments and NGOs), and some less familiar development partners (including MNCs and local conflict actors).

While there are some key areas of consensus surrounding the principles of post-conflict PSD, there has been some difficulty in putting these into practice. There are also important areas of dispute, including whether PSD programming should focus primarily on targeted intervention, direct systemic intervention, or on improving the investment climate

(Chapter 4). This debate reflects a wider discussion in PSD about the most effective way of encouraging and developing private sector. In practice, donors often employ a range of different approaches and a variety of different types of programming, depending on the particular needs of each individual situation. However, the debate is a critical one for the future of post-conflict PSD, and one which has yet to be resolved.

6.2 Future Directions

The brief summary and conclusions above have shown that post-conflict PSD is still an emerging field, and that much more work still remains to be done. This Review has highlighted just a few of the questions which still need to be answered and the conundrums which still need to be resolved. It has been the start of a much larger process, mapping the initial ground to be covered, and considering some possible future directions.

Over 2009 and 2010, the DCED will continue to work in this area, addressing specific research questions and moving forward in some of these future directions.

The DCED's *Expert Meeting on Post-Conflict PSD*, held in Berlin in September 2008, will take up some of the themes identified in this Review, and examine them in more detail. From this, it is hoped that potential avenues of future research will emerge, and that a dialogue between PSD and conflict specialists (and indeed others) will be opened.

The meeting may prepare the ground for a larger conference in 2009; open to a wider audience and addressing some of the concerns identified in this Review and in the 2008 Expert Meeting. By then, the dynamic field of post-conflict PSD will have developed in new and unforeseen ways.

The DCED Secretariat sincerely hope that this Review provides a significant contribution in synthesising current literature and practice, acting as a firm foundation for the larger process foreseen - and ultimately for agreement around good practice between all the agencies involved.

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