

## STRENGTHENING THE ECONOMIC DIMENSIONS OF PEACEBUILDING

### PRACTICE NOTE SERIES

‘Peacebuilding essentials for economic development practitioners’

## Practice note 2: Business environment reforms in conflict-affected contexts

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### 1: Introduction to series

#### 1.1. About this note

This practice note explains why and how business environment reforms should be taken into consideration by economic development planners and practitioners working in conflict- and post-conflict contexts. It presents some of the main issues, risks and opportunities that economic development professionals need to bear in mind when designing programmes and initiatives that seek to attract foreign investors to unstable contexts. It also introduces the key stakeholders and processes, questions to be considered and main lessons learned. The final section points the reader to additional resources on the topic.

#### 1.2. Who should read this series?

Policy-makers and practitioners, specifically those that are working in conflict-prone and conflict-affected contexts.

#### 1.3. The series will help you to:

- Better understand key economic recovery challenges and opportunities in conflict and post-conflict contexts;
- Draw on existing good practice for your own economic development planning and programming in this area;
- Maximise the positive contribution your strategy and programme can make to economic recovery and peacebuilding; and
- Ensure that your intervention is conflict-sensitive.

## 2

Section 2:  
Key issues, risks  
and opportunities

## Section 2: Key issues, risks and opportunities

The “business environment” describes the legal, institutional and cultural framework in which individuals and firms pursue commercial activities. Economic development practitioners prefer the term “business-enabling environment” in recognition of the goal of reform: to reduce the costs and risks of commercial activity in a competitive system in order to increase economic growth, reduce poverty, and improve overall socio-economic welfare.

The business environment in conflict-affected contexts is marked by risk, uncertainty, and increased costs. These factors tend to drive up prices, reduce the quality and quantity of goods and services available, and limit competition. Frequently, post-conflict economies are characterised by a few larger players, often newly emergent, which were able to survive the chaos, and numerous informal actors eking out a subsistence living. This profile of economic disparity is often true of pre-conflict economic relationships as well, with the primary difference arising from changes in economic power: conflict may eliminate or reduce previously dominant businesses, and increase the overall number of people at the subsistence level. Such disparities create perceptions of unfairness and injustice, and can badly undermine social stability. Moreover, conflict damages trust, and trust is one of the principle risk-mitigation factors that enables healthy economic relationships.

Creating a business *enabling* environment offers significant challenges and risks in a conflict environment, as well as numerous opportunities for effective peacebuilding initiatives. Economic opportunity depends, at the most basic level, on enforceable property rights and enforceable contract rights. The complex network of business laws, regulations and institutions rests on these foundations.<sup>1</sup> At the same time, each of these is a tool for building those foundations. Enforcement – which underpins all rights – depends on the existence of a continuum of trusted and trustworthy institutions, ranging from informal community pressure to formal court systems backed by the power of the state. Conflict can disrupt these institutions, which can result in a number of opportunities and constraints.

Opportunities arise when institutions affected or damaged by conflict formed part of the causes of the conflict to start with. For example, corrupt or unjust courts and other government arbiters can promote resentment and the sense of disenfranchisement underpinning the roots of conflict. When helping societies rebuild after war, reformers have the opportunity to introduce improvements: judicial transparency, open-access licensing regimes, and competitive government procurement systems, among other building blocks of just rule.

Disrupted enforcement systems also introduce constraints. Business depends on trade – whether local, regional, or international. Trade, in turn, depends on enforceable contracts and secure property rights. When foundations of enforcement institutions are fractured, businesses can no longer rely on established systems. They may retreat to less efficient, more expensive barter arrangements, forego new opportunities, or spend valuable resources creating work-arounds to ensure that contracts can be enforced. Moreover, property rights may be compromised by conflict, whether by out-and-out conquest or by war-related migrations. Without clear rights of use or ownership, few people will invest significantly in property, and some may even disinvest.

<sup>1</sup> K. Dam (2006). *The law-growth nexus: The rule of law and economic development*. Washington, DC: Brookings Institutions Press

For reformers, the trick is to identify and address those aspects of the business environment that disable commercial activity by reducing trade, compromising property rights, and undermining trust by employing approaches to reform that create and enhance legitimacy through relationships of trust. The following sections will address the different ways in which these issues can be dealt with in more detail.

## 2.1. Key conflict risks

**Insecure Property Rights.** Secure rights are fundamental for productive investment and business growth. Perceived inequity and injustice in the exercise and acquisition of property can lead directly to violent conflict. Innumerable wars have begun over access to land, water and minerals, and to a lesser degree, over unjust taking of movable property such as crops, processed goods and manufactures. Donors run the danger of making conflict worse by recognising – “legal” rights that may not be perceived as legitimate. For example:

- Zimbabwe has enacted various laws to redistribute productive agricultural land. The alleged purpose of the laws was to redress historical injustice, but implementation – through distribution of land to government cronies – has led to new injustice. New “ownership” is technically based on law, but in reality relies on abusive force. Consequently, this new system has increased social tensions, and the question of legality and legitimacy must be addressed.
- In Bulgaria (and many other Eastern European countries), land was nationalised after World War II through the exercise of state power based on duly enacted laws. Consequently, such confiscation was technically “legal”, but violated deeply held popular commitments to private property. When the authoritarian government fell in the early 1990s, these tensions resurfaced, but were sufficiently addressed through systems of compensation and, in some cases, return of land to avoid economic and socially disruptive conflict.
- Kosovo continues to suffer from uncertainty over land occupation and ownership rights arising both from violent dispossession as well as abandonment of land during their recent war. Settling these rights will require more than legalisation of current occupants by legislative fiat, as any perceived injustice will sow seeds of future conflict. It will require a mix of long-term participatory policy development and short-term solutions.

**Dysfunctional Court Systems.** Conflict-affected contexts tend to start or end with court systems that do not function in accordance with the rule of law. To the extent that courts appear to favour one group over another, or to operate on the basis of bribery or political influence, they increase the levels of distrust and resentment toward the government, while undermining economic recovery. It is important that reformers first establish respect-worthy adjudication, and only then focus on enforcement of respectable judgments. Early emphasis on enforcement may undermine credibility of the reforms. It is also crucial to realise that whilst reform takes years, it should start as soon as possible. This should be coupled with recognition and reform of informal systems of adjudication.

**Abuse of Regulatory Authority.** The business environment is deeply affected by the way business is regulated. Abusive regulation increases likelihood of conflict while limiting economic recovery. Abuses occur when business rights (registration, licensing, competition, etc.) are converted to privileges, which then are inappropriately denied in order to obtain bribes or inappropriately exclude certain groups from business activities. Abuse can also occur at a macro-level, through inflationary economic policy, predatory taxation, exchange-rate manipulations and other practices that unjustly disadvantage one or more sectors in favour of another.

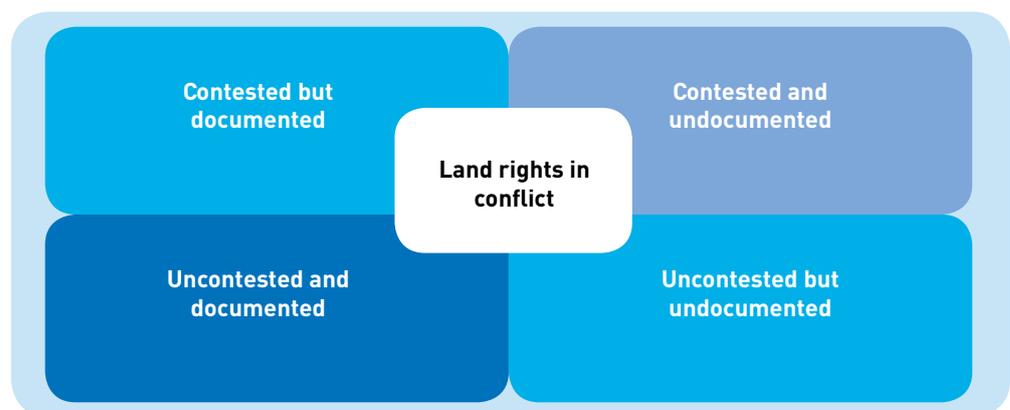
## 2.2. Key peace opportunities

**Establish regulatory and legislative legitimacy.** According to North, Wallis and Weingast, violence and its likelihood are reduced in part through negotiated sharing of economic opportunity among the principle combatants, allowing for eventual expansion into an open-access (rights-based) economic system.<sup>2</sup> Business laws and regulation can be an effective tool for rebuilding both trust and growth by ensuring legitimacy. This takes longer than law by fiat, but has the advantage of building consensus for implementation so that the laws are actually used. Legitimacy relies on a dynamic system of four factors:

- **Legitimate Process.** All stakeholders must have meaningful participation in the process of input, vetting, revising and adopting new rules. Government, business organisations, civil society and other competing interests, if given a role and stake in defining the rules of the game, will establish greater ownership.
- **Legitimate Substance.** Laws and regulations need to be well drafted and technically capable of achieving the desired ends. This may require the use of foreign advisors to work with local reformers to ensure proper substance balanced with local realities.
- **Legitimate Representation.** All stakeholders should feel that they are properly represented in the process by parties that they trust. If representatives of unions, ethnic groups, or political parties are excluded, they may veto implementation thereafter. Reformers should choose models and specialists that are respected locally as well; for example, if European models are favoured for cultural reasons, then presentation of American models may undermine legitimacy, even if the approach is better.
- **Legitimate Implementation.** Conflict creates opportunity to replace or improve implementers, by reforming government agencies, creating public-private accountability mechanisms, or even dismantling or creating new organisations. Unless implemented properly, efforts to reform rules will be wasted.

**Expand and protect ownership mechanisms.** Conflicts over land ownership increase pressures and opportunities for the development of property rights. Reformers can improve the land market in the short term by categorising land according to whether it is contested and documented (Figure 1).

**Figure 1:** Land Rights in Conflict



<sup>2</sup> D. North, J. Wallis and B. Weingast (2009). *Violence and social orders: A conceptual framework for interpreting recorded human history*. Boston: Cambridge University Press.

Markets can develop rapidly for documented, uncontested property; uncontested but undocumented land can be formalised, while reformers should adopt deliberative systems for dealing with contested properties. At the same time, movable property rights can be introduced to enable more investment in capital through leasing and secured lending systems. Uncontested state-owned property can provide an excellent resource for getting productive assets back into use, but this should be done carefully and only after establishing transparent systems for non-corrupt sale or lease.

**Expand dispute-resolution mechanisms.** Courts, as noted, are likely to be dysfunctional and disreputable in a conflict-affected context. Businesses and individuals are likely to turn to existing customary or informal systems when assistance is needed. Reformers should consider formal recognition of such decisions, as well as introduction of alternative formal systems such as private-sector mediation and arbitration services. In Rwanda, the customary system of *gacaca* courts is now being used to handle business cases; in Afghanistan, the private sector in Kabul established its own *shura* council to fill the gap in reliable courts.

**Expand opportunities for women.** Poor regulatory systems hurt women.<sup>3</sup> Following conflict, women's roles are often in flux due to the loss and dislocation of men. Traditional power structures may therefore be open to greater inclusion of women in policy and business, particularly in eliminating unnecessary barriers to women. In Uganda, simplification of business registration allowed women to start 30% more new businesses than men in the first year.<sup>4</sup>

**Reduce and simplify regulation.** In general, conflict-affected contexts tend to over-regulate business. Conflict itself reduces government capacity to provide services, and so offers incentive and opportunity to reduce the amount of unnecessary and inappropriate regulation in place. In 2009, Rwanda became the world's top business regulation reformer by effectively reducing business barriers as reflected in the World Bank's *Doing Business* indicators.<sup>5</sup>

### 3: Major actors, institutions and processes

**Business Associations.** Private-sector business associations are essential partners in reforming the business environment. Their mandate is to promote the interests of their membership by providing services that can range from advocating reforms to training members. The better organisations are structured to incorporate input from members through committees and even voting systems that inculcate democratic principles. These groups can provide sharp insights into constraints and reform priorities through formal and informal member surveys. They also provide an efficient conduit for vetting reforms with private-sector operators. Reformers should be cautious to avoid monopoly or cartel agendas of associations that represent primarily entrenched interests, which can be counterbalanced by assisting in the development of competing and complementary organisations that represent distinct sectors. For example, colonial-era Chambers of Commerce, Industry and Agriculture such as those often found in former Portuguese colonies

3 The World Bank Group, *Doing Business 2008*. Available at, <http://www.doingbusiness.org/features/DB2008Report.aspx>  
 4 The World Bank Group (2008). 'A red dress and a wheelbarrow', in *Doing business: Women in Africa*, p.39. Available at [http://www.doingbusiness.org/documents/Women\\_in\\_Africa.pdf](http://www.doingbusiness.org/documents/Women_in_Africa.pdf)  
 5 The *Doing Business* Project, The World Bank Group. Available at <http://www.doingbusiness.org>

# 3

## Section 3: Major actors, institutions and processes

do not represent the legitimate competing interests of these three sectors, which might be better represented through separate structures. Independent associations of producers, exporters, transporters, processors, farmers and other business interests create greater impetus for reform and greater capacity to implement new rules, once adopted. Regional associations provide additional resources for restoring business relationships across borders.<sup>6</sup>

**Alternative Dispute Resolution.** Mediation and arbitration centres can increase certainty for investors, making investment more attractive and more profitable. When run by the private sector, they are conducted on cost-recovery basis, often as a benefit of association membership. Such centres may exist only in informal, customary institutions which provide useful services but need formal recognition to reach their full potential. Reformers will need to work with private-sector organisations and government regulators to establish formal, private- and public-sector dispute resolution services.<sup>7</sup>

**Rule-making and Legislative Bodies.** Rule-making – whether for overarching legislation or focused regulation – structures political, social and economic relationships. Effective rule-making helps to restore and establish productive relationships among competing interests. Rule-makers (such as legislators and ministries) are charged with development of laws and regulations to implement policy. The rule-making unit – a legislative committee or a ministry office – provides technical support for translating policy decisions into rules. Ineffective rule-making can destroy the business environment. Unfortunately, far too much reform is done with insufficient input from the stakeholders that will be affected by the changes, in large part due to low capacity of the rule-makers. Reformers should therefore work closely with parliament, ministries, think tanks and private associations to create or enhance effective rule-making.<sup>8</sup>

**Customs and Transport Services.** Conflict-affected contexts often have extensive dysfunctions in their trading regime. The management of borders may break-down completely, so that the government is unable to capture import and export revenues needed to fund essential government services. Just as likely, however, is that corruption at the border diverts government revenues into private pockets while badly distorting trade through unnecessary delays, inappropriate taxes or skewed competition. Reformers should make customs reform a priority for the business environment by working to simplify regulations and practices. Such reforms have been quite successful across Southern Africa, especially through reduction of documents across the Walvis Bay – Maputo Corridor, for example. Natural counterparts for such reform are the customs administration and various business associations involved in trade, who can help to advocate change. This is likely to require civil service reform as well to address entrenched interests, as well as national champions from the executive branch who can broker implementation of the reforms.<sup>9</sup>

**Municipal Governments.** Many of the problems faced by businesses can be created or resolved by municipal governments. This is particularly true for land-use restrictions, licensing and permit requirements, and inspection regimes. Reforms

6 For more information on the establishment and operation of business organisations, see the Center for International Private Investment (CIPE) at [www.cipe.org](http://www.cipe.org).

7 FIAS, the Investors Advisory Service of the World Bank, provides information and assistance at [www.fias.net](http://www.fias.net).

8 Guidance on techniques of reform for effective social and economic change can be found at the International Consortium for Law and Development at [www.iclad-law.org](http://www.iclad-law.org).

9 Extensive work on customs simplification and reform has been done by the US Agency for International Development (USAID at [www.usaid.gov](http://www.usaid.gov)) and the Doing Business Advisory Unit of FIAS ([www.fias.net](http://www.fias.net)), among others.

at the national level may change the rules, but implementation takes place only at the local level. Business reformers must engage local authorities to bring about reduction of inappropriate regulation and unnecessary administrative barriers.<sup>10</sup>

**Non-Governmental Organisations.** NGOs often fill in gaps left by the public and private sectors, especially in developing countries that have been affected by violent conflict. They can play an important role in business environment reforms by providing consumer protection and countering corruption that undermines business. They may also focus on subsets of business issues, such as the rights of women or minority groups. Often, they have a focused advocacy role, making them invaluable for policy development. A positive enabling environment for NGOs will strengthen the overall business environment, but establishing NGOs may require legislative and regulatory changes.<sup>11</sup>

# 4

## Section 4: Key questions to consider

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Establishing a business-enabling environment is a complex task in any context, but even more so in a conflict-affected context. Reformers must pay close attention to the various social and economic relationships that gave rise to the conflict and how they must be managed once a cessation of hostilities has been negotiated. This raises a number of substantive, technical and procedural questions regarding the structure and nature of business reforms.

**Demand for Reform.** Although there may clearly be need for reform, there may not be clear demand. Reformers should consider the following:

- *Who is requesting the reform?* The clearest voice for business environment reform should come from the business community. If they are not involved in prioritising and identifying reform needs – that is, if reforms are primarily coming from government or donors – then the reforms are likely to be ineffective unless the business community is also brought into the decision-making process. However, not all business voices are the same. Frequently, entrenched interests will seek to create anti-competitive privileges for themselves, and will succeed unless there is good representation of competing interests. Development literature is replete with well intended reforms that disenfranchised a minority, women, or other legitimate groups whose interests were under-represented in the process, which is why analysis and understanding of the political economy is so important.
- *What kind of reform is being demanded?* Regulation has two main objectives: to permit or to prohibit certain behaviours. Prohibition requires greater capacity, as it relies on inspection and enforcement institutions to ensure compliance. In conflict-affected contexts, these institutions may have insufficient capacity to fulfil their mandate. Simplification and reduction of regulations tend to permit increased business activity and may not require additional regulatory capacity. For example, removal of unnecessary licenses, permits or paid-up capital may allow businesses to operate formally and actually reduce requirements for burdensome government interventions.

<sup>10</sup> The World Bank has developed a sub-national *Doing Business* diagnostic that can be used to identify and promote reform of problems at the municipal level. See [www.doingbusiness.org/Subnational/default.aspx](http://www.doingbusiness.org/Subnational/default.aspx).

<sup>11</sup> The International Centre for Not-for-Profit Law ([www.icnl.org](http://www.icnl.org)) can provide assistance in creating or reforming this vital sector.

- *Does supply match demand?* In one African country, reformers sought to stimulate employment of ex-combatants by training them as electricians and carpenters. However, there was already a problem of oversupply, with a large number of unemployed and under-employed electricians and carpenters. The intended positive impact on employment harmed the business environment through failure to understand the market. Reforms and assistance should be based on careful market analysis (see practice note on socio-economic reintegration).

**Impact of Reforms.** Business environments can be constrained at two levels: systemic (affecting all businesses) and sectoral (affecting all or most businesses in a given value chain). Reformers should prioritise according to the greatest impact on the economy, which will require attention to both systemic and sectoral constraints by addressing the following questions:

- *What are the systemic constraints to business?* Removal of regulations and restrictions that affect all or most businesses, such as excessive licensing requirements, will have a stronger multiplier impact on short-term economic growth. Failed infrastructure, unreliable electricity and excessive import and export delays directly or indirectly burden most businesses. Indeed, Afghan investors have identified electricity as a greater priority than security. Merely changing business regulations, while important, may not effectively remove the barriers that retard growth. A mixture of systemic reforms will likely be needed.
- *Is the entire system being addressed?* Much judicial reform in the former Yugoslavia initially focused on the efficiency of courts in deciding cases, but failed to recognise that enforcement was a separate and independent process that also had to be reformed for decisions to become meaningful. Conflict-affected states often have institutional gaps, such as undertrained tax collectors or insufficient customs inspectors, which reduce or eliminate otherwise beneficial policy reforms.
- *Are separate sectoral reforms needed instead of or in addition to systemic reforms?* General improvements may not be enough to capture constraints in a given sector, especially anti-competitive restrictions that reserve certain markets for vested interests. Industry-specific licensing requirements may continue to curtail investment even after general reforms have been undertaken. Vital industries – agriculture, manufacturing, construction – should be targeted early for simplification and improvement.
- *Will reforms unduly favour or prejudice any stakeholders?* There is often a temptation for winners of a conflict to lock their opponents out of political and economic life, which has the counterproductive effect of damaging the economy and prolonging or sowing the seeds of future conflicts. Reforms should be designed for inclusiveness, with one exception. Vested interests will often be prejudiced in the short-term by having to compete with new entrants. Although competition is the goal, reformers should be aware of counteroffensives by prejudiced interests and should fashion the strategy for reform with that in mind. In Ghana, reformers avoided vested opposition by focusing on ministerial decrees that could be delivered complete while bypassing opponents.
- *Will donor assistance replace government services?* In a war-affected economy, donor assistance can unintentionally compete with government by providing services that the government is unable to deliver. In the past, there have

been too many instances where parallel structures have been put in place. It is important that key public and social services are provided, but it is also important to design the interventions in a way that builds long-term capacity and instils trust in government providers. Policy-reform assistance should not focus on delivering policies and draft laws, but on creating a cadre of local professionals who can reform laws and regulations.

- *Will donor assistance compete with or replace private-sector services?* Reconstruction of infrastructure, delivery of humanitarian goods, or even expansion of credit services should be provided, to the extent possible, by employing and empowering private-sector providers and purchasing local supplies. Donor reliance on imports of furniture, office supplies, and building materials may put local suppliers at a disadvantage instead of spurring competition and investment to meet donor needs and, ultimately, local market needs.

**Urgency and Extent of Reforms.** Given the limited absorptive capacity of conflict-affected societies and limited funding of donors, reformers must make strategic decisions about the timing and extent of reforms. Before undertaking initiatives, the following questions should be addressed:

- *How urgent is the reform?* A healthy business environment requires a wide range of institutions and laws over time, but many of these are not urgent in a post-conflict environment. Outdated company laws or gaps in bankruptcy protection are unlikely to be important in the short term, whereas the customs regulations, licensing regime, or tax rates may have significant immediate impact. Reforms should be prioritised according to urgency; in some cases, such as judicial reform, this means starting long-term processes immediately while also addressing short-term needs.
- *Is sequencing required?* Many reforms can be undertaken in parallel, but some must be sequenced to be effective. It may be necessary to establish institutional capacity before giving an agency regulatory authority, or to implement some kinds of laws – such as procurement reform and governance systems – before others – such as privatisation.
- *How much reform is enough?* There is a tendency for reformers to undertake wholesale revision or replacement of presumably outmoded laws and regulations. Often, just as much can be achieved in the short term through more targeted, tailored revisions of a few clauses or policies. “Aggressive incrementalism” – the ongoing pursuit of small changes – allows for stakeholders to absorb and implement new reforms at a rate they can manage.
- *How much reform is too little?* Policy reforms require institutional reforms, including reorganisation of regulators, training of public and private-sector stakeholders, and even creation of new associations or organisations. Some reforms passed at the national level must be implemented at the municipal level. Policy reform should never stop at legislation.
- *Who needs to know?* Laws passed on paper must be communicated to those that will implement the changes. This requires deliberate, planned interventions to ensure that every relevant actor and stakeholder in the chain of implementation is informed and may need additional training before implementation is possible. In conflict-affected contexts, institutional weaknesses mean that adopting legislation may not lead to changed behaviours without deliberate effort.

- *Can technology fill the gaps?* Inefficient or missing processes can often be improved through the use of technology. Mobile banking may help extend banking services beyond the effective reach of brick-and-mortar branches, while mobile phones bypass arduous and expensive infrastructure investment in landlines. Likewise, computerisation can create transparent, simple processes for business registration, tax administration, and customs declaration. Reformers should combine technology with process re-engineering to ensure that the underlying systems are improved, not just computerised. Otherwise, it is possible that reforms can lead to doing the wrong things faster instead of doing the right things.

# 5

## Section 5: Existing good practice and guidance

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- **Macro comes first.** Without a banking system and stable (non-inflationary) currency, the economy will neither stabilise nor grow effectively, no matter what micro-economic reforms take place. For example, dollarisation in Zimbabwe ended hyper-inflation and stabilised the battered economy, allowing for modest economic improvement.
- **Demand is the starting point.** Business environment reforms will be most effective when the needs of the private sector are aligned with the political will of the government and funding priorities of donors. Banks and borrowers in Bosnia both recognised the need for improved access to capital when donors offered a modern secured lending system; government buy-in ensured success.
- **Culture is just as important as substance.** Technical changes must respect cultural norms, such as Shariah compliance, for local actors to accept them. Even so, sometimes cultural norms must be challenged – such as disenfranchisement of women – to achieve lasting improvements. In Afghanistan, banking law is Shariah-compliant; laws on women's rights are at odds with tradition, but are slowly making inroads.
- **Keep changes digestible.** Small, targeted changes can be absorbed more readily than sweeping replacements of entire codes. As capacity develops, more complex efforts can be undertaken. In Mozambique, comprehensive judicial reform has been slow and ineffective; creation of alternative dispute resolution for commercial contracts, however, has had significant impact in reducing commercial disputes.
- **Connect the parts.** Trust requires understanding: create space for public-private dialogue through participatory reform processes. Macedonia's first attempt at company law reforms failed for lack of participation; a second round, which brought all stakeholders to the table, created consensus across ethnic and socio-economic divides, resulted in implementation.
- **Beware of low-hanging fruit.** Short-term impact can inspire long-term reform efforts, but quick wins are too often disconnected from systemic efforts and lead to long-term frustrations. Incorporate low-hanging fruit into longer-term project design and implementation. For example, reducing the time needed to open a business should be connected to licensing reforms that often keep businesses from operating for months after opening.

- **Create opportunity.** Cartels and monopolies stifle growth. Use business environment reform to enable newcomers to invest and grow, but protect them by also creating capacity to confront vested interests. In Guinea-Bissau, elimination of an export cartel was supported by strengthening producer associations to contravene repeated attempts by the cartel to re-establish anti-competitive advantages, allowing for growth even through 10 years of conflict and instability.
- **Create and enhance rights.** Economies built on privilege are less stable. Ensure that regulatory restrictions are based on reasonable standards to establish broad-based rights to participate in the economy.
- **Focus on domestic investment.** Approximately 90% of investment comes from domestic investors, and two-thirds of foreign investment comes from neighbours and diasporas. Non-extractive foreign investors are seldom interested in conflict-affected zones, so investor-friendly reforms should focus on attracting domestic business investment (see also practice note in this series on Foreign Direct Investment). Rwanda has improved business regulation for *all* investors, capturing increased domestic investment while attracting foreign investors.
- **Do not rebuild unnecessary institutions.** Sometimes the collapse of a corrupt, incompetent or unjust agency is a blessing in disguise. Before rebuilding, determine whether it should be replaced afresh or eliminated instead.
- **Recognise the short-term benefits of long-term efforts.** Some reforms take years to accomplish. Although they may not show short-term economic impact, the process of reform can be used to build trust and understanding among the disparate stakeholders along the way. Judicial reform in Bosnia continues to move slowly, but respect for courts is growing. Improved judicial salaries – a seemingly minor reform – has allowed court presidents to demand more from judges, leading to improved performance and improved respect.
- **Go slowly with land and resource reforms.** Inappropriate land reforms can (re-)start wars. Take time to create and build consensus. Go slowly, starting with national policy development, followed by development of national and sub-national laws and implementing regulations. National land policy in Afghanistan took two years to draft and adopt; it now needs to be followed by several years of developing land-use policies and dispute-resolution systems. There is still great danger of land conflict where government claims to ownership compete with long-term use by existing occupants; rapid change will likely lead to conflict.
- **Take the long road.** Stabilisation takes time – at least ten years.<sup>12</sup> Commit political and financial resources for the long term.

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12 P. Collier (2009). *Wars, guns and votes: Democracy in dangerous places*. New York: HarperCollins.

## 6

## Section 6: Where to find out more

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A number of aid agencies, multilateral finance institutions, and private organisations provide materials that are expressly designed for conflict-affected contexts, or which are readily applicable. Some helpful materials include:

USAID – The United States Agency for International Development ([www.usaid.gov](http://www.usaid.gov)):

- *A guide to economic growth in post-conflict countries*, January 2009. Available at [http://pdf.usaid.gov/pdf\\_docs/PNADO408.pdf](http://pdf.usaid.gov/pdf_docs/PNADO408.pdf)
- *Community-based development in conflict-affected areas: An introductory guide to programming*, May 2007. Available at [http://www.usaid.gov/our\\_work/cross-cutting\\_programs/conflict/publications/docs/CMM\\_CBD\\_Guide\\_May\\_2007.pdf](http://www.usaid.gov/our_work/cross-cutting_programs/conflict/publications/docs/CMM_CBD_Guide_May_2007.pdf)
- *Job creation in post-conflict societies*, April 2006. Available at [http://pdf.dec.org/pdf\\_docs/PNADE194.pdf](http://pdf.dec.org/pdf_docs/PNADE194.pdf)
- *Land and conflict – A toolkit for intervention*, April 2005. Available at [http://www.usaid.gov/our\\_work/cross-cutting\\_programs/conflict/publications/docs/CMM\\_Land\\_and\\_Conflict\\_Toolkit\\_April\\_2005.pdf](http://www.usaid.gov/our_work/cross-cutting_programs/conflict/publications/docs/CMM_Land_and_Conflict_Toolkit_April_2005.pdf)
- *Conducting a conflict assessment: A framework for analysis and intervention*, August 2004. Available at [http://www.usaid.gov/our\\_work/cross-cutting\\_programs/conflict/publications/docs/CMM\\_ConflAssessFrmwrk\\_8-17-04.pdf](http://www.usaid.gov/our_work/cross-cutting_programs/conflict/publications/docs/CMM_ConflAssessFrmwrk_8-17-04.pdf)
- *Securing the future: A strategy for economic growth*, April 2008. Available at [http://www.usaid.gov/our\\_work/economic\\_growth\\_and\\_trade/eg/eg\\_strategy/eg\\_strategy\\_v4\\_final.pdf](http://www.usaid.gov/our_work/economic_growth_and_trade/eg/eg_strategy/eg_strategy_v4_final.pdf)
- *Policy reform lessons learned: A review of economic growth related policy reform activities in developing countries*, June 2007. Available at [http://www.publicprivatedialogue.org/papers/USAID\\_Policy%20Reform\\_Lessons\\_Learned.pdf](http://www.publicprivatedialogue.org/papers/USAID_Policy%20Reform_Lessons_Learned.pdf)

The World Bank Group ([www.worldbank.org](http://www.worldbank.org)):

- *A rough guide to investment climate reform in conflict-affected countries*, 2009. Available at [www.fias.net/ifcext/fias.nsf/AttachmentsByTitle/RoughGuideICReform/\\$FILE/RoughGuideICReform.pdf](http://www.fias.net/ifcext/fias.nsf/AttachmentsByTitle/RoughGuideICReform/$FILE/RoughGuideICReform.pdf)
- *Alternative dispute resolution manual: Implementing commercial mediation*, December 2006. Available at [http://rru.worldbank.org/Documents/Toolkits/adr/adr\\_fulltoolkit.pdf](http://rru.worldbank.org/Documents/Toolkits/adr/adr_fulltoolkit.pdf)
- The *Doing Business Project*, Available at [www.doingbusiness.org](http://www.doingbusiness.org)

DCED – The Donor Committee for Enterprise Development ([www.enterprise-development.org](http://www.enterprise-development.org)):

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## About the Practice Note Series

This practice note forms part of a series of Peacebuilding Essentials for Economic Development Practitioners that Alert is producing, in partnership with leading experts and practitioners from relevant fields, in the course of 2009-2010. The aims of the series are to:

- Introduce economic development practitioners to key economic recovery and peacebuilding challenges in conflict-affected and post-conflict contexts;
- Share lessons and good practice on how to strengthen the economic dimensions of peacebuilding;
- Provide practitioners and planners with the knowledge and tools to ensure that their interventions are conflict-sensitive;
- Promote experience-sharing between economic development and peacebuilding practitioners, to enhance synergies between the two.

Topics covered in the series to date include:

- Market Development in Conflict-Affected Contexts
- Socio-Economic Reintegration of Ex-Combatants
- Foreign Direct Investment in Conflict-Affected Contexts
- Business Environment Reforms in Conflict-Affected Contexts
- Supporting the Economic Dimensions of Peace Processes
- Economic Legacies of War
- Natural Resource Governance in Conflict-Affected Contexts

## About the Project

'Strengthening the Economic Dimensions of Peacebuilding' forms part of International Alert's wider work, ongoing since 1999, on improving business conduct and promoting a peacebuilding approach to economic interventions in conflict-prone and conflict-affected contexts. Our firm belief is that just and lasting peace requires broadly shared economic opportunities, including decent work, to redress economic issues and grievances that fuelled violent conflict in the first

place, and to address the economic impacts of conflict on the livelihoods and lives of conflict-affected populations.

Indeed strengthening the private sector and market-based economies has become a key concern for development assistance in recent years, including in countries affected by conflict. But while the links between peacebuilding and the economy may be obvious, it is less clear how a peacebuilding approach to such economic interventions can be achieved in practice, and how they can be made conflict-sensitive. Understanding the ways in which these interventions can interact with pre-existing conflict dynamics is crucial given that the allocation of resources and economic opportunities feature prominently as root causes in many conflicts; therefore any external intervention targeting the economic sphere is bound to interact with core conflict issues and the economic legacies left by violent conflict. This will be to the detriment of the local conflict context, and programmes, alike.

The objectives of the overall project are three-fold:

1. To identify lessons in order to generate evidence-based resources and guidance for policymakers and practitioners to improve the conflict-sensitivity and peacebuilding impacts of economic interventions
2. To promote uptake of such good practice
3. To put the links between economic recovery and peacebuilding on the agenda of relevant national and international actors through advocacy, outreach and networking

Previous phases of the project received funding from the German Federal Ministry for Economic Cooperation and Development (BMZ), the Norwegian Ministry of Foreign Affairs, and the United States Institute for Peace. This practice note series was funded by the Norwegian Ministry of Foreign Affairs.

To find out more, visit

[http://www.international-alert.org/peace\\_and\\_economy/index.php?t=3](http://www.international-alert.org/peace_and_economy/index.php?t=3)

## About International Alert

International Alert is an independent peacebuilding organisation that has worked for over 20 years to lay the foundations for lasting peace and security in communities affected by violent conflict. Our multifaceted approach focuses both in and across various regions; aiming to shape policies and practices that affect peacebuilding; and helping build skills and capacity through training.

Our field work is based in Africa, South Asia, the South Caucasus, Latin America, Lebanon and the Philippines. Our thematic projects work at local, regional and international levels, focusing on cross-cutting issues critical to building sustainable peace. These include business and economy, gender, governance, aid, security and justice. We are one of the world's leading peacebuilding NGOs with more than 120 staff based in London and our 11 field offices. For more information, please visit [www.international-alert.org](http://www.international-alert.org)

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