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# INSIGHTS

## MISSION

USIP's Insights Newsletter aims to challenge and refine major assumptions about the theory and practice of peacebuilding and contributes to the design of specific peacebuilding tools applicable in conflict situations worldwide.

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## STATE OF THE ART

# Economics and Peacebuilding: A Crucial Connection

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Economics and Peacebuilding programs and interventions represent a growing part of the United States' stability operations and foreign aid policy. Half of all U.S. Agency for International Development funds flow to fragile and conflict-affected states.[1] With the growing number of conflict and humanitarian situations in the world and the shift away from "boots-on-the-ground" interventions, nonkinetic interventions such as economic programs will play an even larger role in U.S. foreign policy.

Yet the effects of economic interventions on violence and stability outcomes are largely unknown. The 2011 World Development Report, for example, states that the link between unemployment and violence is unclear and concludes that further research is needed. Broadly, how do economic interventions affect violence and stability? What mechanisms are involved? How does context matter? Which interventions are most cost-effective? Under what conditions might economic activity increase violence in a region? When should certain interventions be avoided altogether?

### Grasping the Field

As a growing field of theory and practice Economics and Peacebuilding explores the relationship between development, stabilization and violent conflict, and the application of that knowledge to government policy. It draws from the fields of political science, economics, sociology, international development, and criminology, to name a few, making it a sometimes unwieldy issue area to examine as a whole. It is much easier to grasp what Economics and Peacebuilding is by looking at the programs and interventions that it informs.

In their Evidence for Peacebuilding evidence gap map (EGM), 3ie identifies five intervention types dealing with Economic Foundations: (1) employment training, (2) jobs and cash transfers, (3) land reform, (4) resource management, and (5) combatant reintegration.[2] 3ie then systematically identifies evaluations of how these interventions affect fourteen different outcomes, related to peacebuilding. The economic interventions have been evaluated on eleven of the outcomes, including individual economic outcomes but also individual beliefs, public confidence, and intergroup conflict.

Community-driven development and reconstruction (CDD/R) is an intervention type that the EGM classifies under Revenue and Social Services. In CDD/R, resources are given to a community to decide independently what development project to put the resources towards. The EGM identifies evaluations examining how CDD/R programs affect twelve of the fourteen outcomes.

Due to its wide breadth, Economics and Peacebuilding has developed as a collection of subfields based on questions. These question focus either on identifying the outcomes of a certain intervention—What are the effects of a CDD/R project?—or on identifying the interventions that affect a certain outcome—What economic interventions decrease support for armed violence? This division of the field is necessary to create manageable questions. The division also acknowledges that every peacebuilding situation is different and will have different outcomes that need to be addressed.

To move this field forward, we must continue building our body of knowledge. As the EGM shows, there are many areas where there are zero evaluations and many more where there are not enough evaluations to have confidence in intervention effectiveness. Even when we do have a large collection of evaluations, there is the additional challenge of determining what mechanism is at play.

In this article we describe the conflicting mechanisms that connect economic interventions to the outcomes that USIP is mandated to fulfill in the field of peace and security. We then examine foreign aid and its effects in light of these mechanisms and discuss recent research on the way foreign aid can harm in certain contexts. We conclude by highlighting the growing community-of-practice around economics and peacebuilding; some of its key members have graciously contributed to make this a dynamic and crosscutting edition of Insights!

## Economic Mechanisms of Peace

The 2011 World Development Report counts a billion and a half people living in countries affected by fragility, conflict, or violence. In such countries, economic development is impeded by the destruction of human and physical capital and by the reticence of investors to put their money at risk. As Douglass North and his colleagues have put it, by limiting economic activity, "the shadow of violence" threatens human welfare in many parts of the world.[3] It is no coincidence that the world's poorest countries are often among those that suffer from recurring civil conflicts.

Economic instruments can be used to buy off rebels or those who might be tempted to join an insurgency given the promise of monetary gain.

Indeed, poverty and conflict can, in the words of development economist Paul Collier, create a "trap" from which countries struggle to escape. Poverty feeds conflict, and conflict feeds poverty. Understanding and attacking the roots of violence in a given country, which may have become deeply embedded over time, is a complex exercise that even those with deep local knowledge can find intimidating if not overwhelming.

Foreign powers that intervene in local conflicts often seek, in the first instance, to end the fighting and restore "stability." That usually translates into supporting the government in its campaign against rebels or insurgents. Since both the government and insurgents compete to win the allegiance of the local population, or what is commonly known as an effort to "win hearts and minds," the population finds itself in a position to bargain with or play off the two sides. Berman, Shapiro, and Felter explore these dynamics with a model where civilians choose whether or not to provide intelligence regarding insurgent activity to a government which provides them goods and services.[4] If civilians play this information game, the government is better able to pursue and defeat the rebels. That decision, of course, rests on how the population views the insurgent and government forces: Under which one are they better off?

This simple model clarifies how economic instruments have come to loom large in such counterinsurgency campaigns as those waged in Afghanistan and Iraq, and earlier in Vietnam. While these economic interventions may be inspired by deeply felt humanitarian concerns, they also serve a counterinsurgency function for government forces that seek information from local populations. As we will see in the following, economic instruments can be used to buy off rebels or those who might be tempted to join an insurgency given the promise of monetary gain. Yet the crucial question remains: To what extent and under what conditions do economic instruments serve to reduce violence and assist in the process of conflict mitigation and postconflict reconstruction?

At least two different mechanisms could predict a negative correlation between economic activity and rebel violence, while two others could predict a positive correlation. First, the "opportunity cost" mechanism posits that providing actual or potential rebels with better economic alternatives (i.e., steady employment) increases their cost of participation in an insurgency, and in so doing reduces violence.[5] Second, the "gratitude" mechanism suggests that civilians will be grateful to the government for increased local investment in goods and services and thus withdraw support for the insurgency as a reward.[6]

Conversely, one can also sketch economic measures that lead to more violence. First, the "predation" model posits that investment and big development projects present extortion opportunities for insurgents which induce violent exploitation.[7] Second, the "tax capture" mechanism implies that a government will increase its use of coercive force in order to collect taxes as investment rises.[8] In short, as economic activity in a region increases, governments become more motivated to seize control over the contested space.

This theory seems consistent with much of the economic history of nationbuilding. As territories became more valuable to states, governments have deployed greater force to win control over them. It should be emphasized that over the short run a country may experience greater violence, while over the long run more robust economic growth, as the government exercises its monopoly control over violence in particular regions (of course, governments could also adopt growth-killing policies, and in fact many have done so over the centuries, as North et al. emphasize).[9]

These conflicting mechanisms point to the overarching importance of a political economy of conflict, of the need for a deep understanding of the forces that are driving both government and insurgent policies. Where governments are viewed as mere rent seekers with little interest in the delivery of public goods, then economic projects are unlikely to provide the basis for sustainable growth. Analyzing the actions of investors in conflict zones might provide insights into how they judge local power struggles and the possibilities for long-run stability.

## The Role of Foreign Aid

What are the implications of this line of analysis for foreign aid donors? Clearly, policymakers in donor countries have tended to view foreign aid as supportive of stabilization missions in conflict-affected regions. Aid funds can support military operations directly by funding security forces, or indirectly by relaxing government budget constraints, enabling greater spending on defense and police activities. Aid funds can also be used to increase social welfare through the building of schools, hospitals, infrastructure, and other public goods. However, foreign aid can also target the members of an insurgency, again either directly or indirectly. As already noted, jobs programs, for example, can increase the "opportunity cost" of participating in a rebellion, making it more difficult to recruit insurgents. The provision of public goods may also make a population more willing to divulge information about local insurgency operations, again as suggested in the BSF model.

> While foreign aid undoubtedly has the capacity to do some good in conflict-affected regions, it may also increase violence in such places.

But despite this potential to contribute to conflict mitigation, some recent economics papers suggest that foreign aid might also lead to an increase in violence. For example, Nathan Nunn of Harvard and Nancy Qian of Yale find that the provision of U.S. food aid increases both the likelihood and the duration of civil conflict.[10] Along these lines, earlier studies argued that foreign aid to Biafra during its war with Nigeria prolonged that struggle, causing many thousands of additional deaths.[11] Turning to the Philippines, Benjamin Crost, Joseph Felter, and Patrick Johnston, in their paper *Aid Under Fire: Development Projects and Civil Conflict*, find that a World Bank-funded aid program in that country increased the number of casualties where it was delivered, owing to rebel efforts to extract rents from such projects.[12] These findings raise troubling questions for policymakers in donor nations. While foreign aid undoubtedly has the capacity to do some good in conflict-affected regions, it may also increase violence in such places. Much greater thought needs to be given to the design and delivery of aid programs. For example, BSF argue that smaller projects are much less likely to be targets for predation then, say, big infrastructure programs. In conflict zones, small may be beautiful when it comes to foreign aid.

## The Role of USIP

Clausewitz famously said that "war is politics by other means." He might have added that "war is economics by other means" as well. As Jack Hirshleifer argued many years ago, a fundamental choice that economic agents must make is whether to engage in productive or predatory activity.[13] Sadly, many of the wars and conflicts scattered around the developing world are about who gets to predate on whom. Because these conflicts have the potential to create widespread suffering and dislocation at home and abroad, the international community often feels compelled to intervene in some capacity either with or without "boots on the ground." But which interventions are most likely to reduce conflict, and under what conditions?

These are key questions for which our evidence-base remains weak. It is this evidentiary and policy void which preoccupies USIP's Center for Applied Research on Conflict (ARC) broadly. ARC is especially focused on economic interventions through its Economics and Peacebuilding Program (EPP). By promoting cutting-edge, policy-relevant research on the role of development assistance among other "nonkinetic" instruments, EPP/ARC hopes to contribute to evidence-based policymaking, particularly at a time when these instruments are likely to become more prominent as the appetite for direct military intervention wanes. The

EPP also works with the growing academic consortia, such as the Empirical Studies of Conflict Project and international development organizations such as Mercy Corps, to sponsor and promote relevant research to policymakers and practitioners.

All of these efforts depend on agencies of the U.S. and other governments to gather and make available high quality data on various policy interventions in fragile and conflict-affected regions, along with better data on patterns of violent activity. Only in this way can the research community contribute to more effective policymaking. With billions of dollars at stake, and with the lives of so many soldiers and civilians at risk, the need for evidence-based policymaking is greater than ever.

The rest of this issue looks closer at a variety of economic and peacebuilding programs. Laura Ralston looks at the World Bank's job creation programs and reviews the evidence that connects those programs to stability outcomes. In our Peace Arena, Benjamin Crost and Robert Wrobel debate the impact of community driven development programs and highlight the challenges of research and evaluation. Beza Tesfaye and William Byrd give their views from the field adopting two very different vantage points. Tesfaye starts with the micro-level costs of Nigeria's conflict and how they add up at the macro level, whereas Byrd starts at the macro-level with international funding for Afghanistan reconstruction and how it shapes micro-level activity. ■

## Notes

1. Data at: www.usaid.gov/results-and-data/budget-spending; accessed August 11, 2014.
2. Drew Cameron et al., "Evidence for Peacebuilding, An Evidence Gap Map." April 2015. Accessed May 8, 2015, www.3ieimpact.org/en/publications/3ie-evidence-gap-map-report-series/3ie-evidence-gap-map-report-1/.
3. Douglass North et al., *In the Shadow of Violence: Politics, Economics, and the Problems of Development* (New York: Cambridge University Press, 2013).
4. Eli Berman, Jacob N. Shapiro, and Joseph H. Felter, "Can Hearts and Minds Be Bought? The Economics of Counterinsurgency in Iraq," *Journal of Political Economy* 119, no. 4 (August 2011): 766–819.
5. Radha Iyengar, Jonathan Monten, and Matthew Hanson, "Building Peace: The Impact of Aid on the Labor Market for Insurgents," NBER Working Paper no. 17297, August 2011.
6. David Kilcullen, *Counterinsurgency* (New York: Oxford University Press, 2010).
7. Herschel Grossman, "Rival Kleptocrats: The Mafia vs. the State." Brown University Working Paper, 1993.
8. James Fearon, "Why Do Some Civil Wars Last So Much Longer Than Others?," *Journal of Peace Research* 41, no. 3 (May 2004): 275–301.
9. North et. al., *Shadow of Violence*.
10. Nathan Nunn and Nancy Qian, "U.S. Food Aid and Civil Conflict," *American Economic Review* 104, no. 6 (June 2014):1630–66.
11. Phillip Gourevitch, "Alms Dealers," *The New Yorker*, October 11, 2010.
12. Benjamin Crost, Joseph Felter, and Patrick Johnston, "Aid Under Fire: Development Projects and Civil Conflict," *American Economic Review* 104, no. 6 (June 2014): 1833–56.
13. Jack Hirshleifer, *The Dark Side of the Force: Economic Foundations of Conflict Theory* (New York: Cambridge University Press, 2001).

# STATE OF THE ART

## Brokering Peace through Jobs?

BY LAURA RALSTON, ECONOMIST, THE WORLD BANK

Creating jobs in postconflict and fragile situations is an oft-stated goal in stabilization and recovery programs. Unemployment can be a source of grievances and a cause of social unrest, potentially limiting the sustainability of peace. Providing gainful employment opportunities, on the other hand, is often seen as a way to incentivize peaceful behavior by ex-combatants and potential insurgents. Jobs may also help to (re)build social cohesion in fractured communities through enabling inclusivity and providing common economic objectives to individuals with different ethnic, political, and social identities. Furthermore, jobs are a catalyst for broader development goals, such as income growth, poverty reduction, and improvements in living standards, which are often set back during periods of fragility and conflict.

However, while there are many stated reasons why jobs should be good for promoting peace, the links between job creation programs to actual jobs, and from jobs to stability, are not always clear. For the first link, from job creation programs to actual jobs, there are often many underlying assumptions that may not be valid or have yet to be tested in the context in which the jobs programs will be implemented. In many situations, micro-level data that would allow the testing of these assumptions is scarce, making it difficult to assess the effectiveness of potential programs at creating jobs. In such situations it is important to apply methodological thinking and economic reasoning to assess the relevance and appropriateness of a program design.

To help understand the importance of the underlying assumptions behind many job creation programs, let's first review the types of programs that are implemented by governments and international organizations. I used a custom word search algorithm to scan the electronic text of World Bank International Developement Association projects between 2000 and 2013 to identify projects with a clear employment, job creation, or skill development objective.[1] Out of 2,166 projects scanned, 98 projects were identified. Among these projects, 51 percent of countries on the World Bank's Fragile and Conflict-Affected Situations list have implemented projects, with Afghanistan making up 17 percent of the sample.[2] Thus, there are still a number of fragile and postconflict countries that have yet to implement a project with specific job creation or employment-related objectives.

> The links between job creation programs to actual jobs, and from jobs to stability, are not always clear.

The types of projects that were identified can be classified into four groups:

1. **Public Works.** These projects aim at short-term employment creation through infrastructure and reconstruction projects that can also function as social safety net programs.
2. **Private Sector Development.** These projects stimulate growth in small, medium, and large firms through interventions, such as improving access to credit in small enterprises, value chain development, or encouraging foreign direct investment.
3. **Human Capital Development.** These projects promote the investment in the human capital of individuals through subsidizing or offering for free business and vocational skills training courses, education, and, in some cases, job placement and apprenticeships.
4. **Physical Capital Injections.** These projects try to relax capital constraints. For example, they include the provision of capital goods or cash to individuals or microenterprises, as well as supporting land provision, titling, or redistribution.

These projects try to tackle job creation at multiple levels. Public works programs and private sector development can be considered more top-down in their approach. Public works programs are often government-run interventions that create a large number of jobs, although typically only for a short period of time. Private sector development programs aim to have more lasting impacts on the economic environment through encouraging the entrance of new firms, changing regulation processes, and improving the banking sector. Both attempt to improve the supply of jobs to a number of individuals who are willing to work.

Human and physical capital interventions tend to take a more micro-level or bottom-up approach that is generally targeted to individuals or small enterprises. For example, these programs typically try to address problems faced by individuals wanting to work or start a small business, such as increasing their earnings potential, raising productivity, or helping match workers to jobs or learn about profitable opportunities.

All the projects have a few common features. They attempt to correct some market failure or relieve some constraint on self-employment, firm growth, or labor markets. This, however, will only be effective when the market failure or constraint is the binding factor in limiting employment or job creation. Cash and capital injections will only lead to investment and employment if there are financial market constraints, such as imperfect credit or insurance markets, holding beneficiaries below their optimal scale. Skills training will only increase employability or self-employment earnings if individuals are limited in their ability to access these trainings independently (for example, through lack of supply, poor information about the returns to training, or credit constraints). Improving the security over property and land rights, or the regulatory processes, will only increase investments if these factors were restraining expected returns.

Therefore, the success of many of these projects depends on the correct diagnoses of the binding market failures and constraints, such that relieving these factors will necessarily improve employment. An inadequate assessment leading to incorrect underlying

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assumptions means that a project may work hard to relieve a constraint or address a market failure that is not critical. Thus, the link from the program to the creation of jobs is not realized. Even though these assumptions are quite crucial for the intended outcome, many programs are not explicit about them nor do they test validity empirically or theoretically. Unfortunately, in some cases this leads to ineffective programs that fail to create jobs.

On the second link, from jobs to stability, there is actually mixed evidence on whether it holds. It is reasonably well-established that conflict and fragility reduce investment, destroy jobs, and increase poverty.[3]

Thus, one must be cautious in presuming that jobs will necessitate reduced violence and conflict.

However, whether the counter is true, that jobs can broker peace, is less certain. Jobs programs have limited reach, and it may take only a few key individuals or groups to maintain a conflict and continue to mobilize others. Some of these individuals may be difficult to influence through such economic programs. While disarmament, demobilization, and reintegration programs have been shown to be effective at reducing violent conflict at the margin through the targeting of high-risk men, there is also cross-country evidence in Iraq, Afghanistan, and the Philippines that employment in general does not correlate with lower levels of insurgency.[4] Reasons why employment and economic growth may enable conflict during a transitional period include helping to fund armed groups or increasing the costs faced by the state for obtaining counterinsurgency information from civilians. Thus, one must be cautious in presuming that jobs will necessitate reduced violence and conflict.

Among the projects I reviewed, few directly attempted to collect information on their impacts on stabilization, peace, and social cohesion, making it difficult to fully assess their success in this regard.[5] For example, across all types of projects there is an absence of indicators measuring the impacts of employment generation on social cohesion or on an individual's beliefs regarding government accountability and capability. There are sectors where specific indicators could be helpful in ensuring that projects do not exacerbate underlying tensions given the fragile context. For example, sector-wide private sector development projects could benefit from indicators that ensure economic growth is inclusive and that the risk of appropriation by elite groups is being taken into consideration. To evaluate the total impact of projects, indicators tracking the presence of long-term outcomes, such as shifts in livelihoods or educational attainment of children, would be beneficial. Last, while vocational skill development projects attempt to measure employment outcomes for program recipients, there are no direct attempts to measure the impacts on program recipients' willingness to engage in violence or conflict.

Whether job programs truly shift labor from combat and into production has not yet been assessed and remains an area that needs attention if we want to more convincingly assert that job programs really do promote stabilization and recovery.■

## Notes

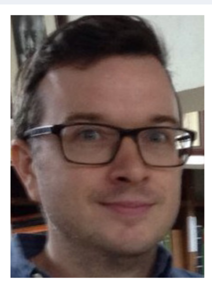
1. Laura Ralston, "Job Creation in Fragile and Conflict-Affected Situations." World Bank Policy Research Working Paper 7078, October 2014.
2. The list covered all countries that had been on the World Bank's Fragile and Conflict-Affected Situations list since 2004: www.worldbank.org/en/topic/fragilityconflictviolence/overview.
3. Christopher Blattman and Edward Miguel, "Civil War." *Journal of Economic Literature* 48, no. 1 (2010): 3–57.
4. Eli Berman et al., "Do Working Men Rebel? Insurgency and Unemployment in Afghanistan, Iraq, and the Philippines." *Journal of Conflict Resolution* 55 no.4 (August 2011): 496–528.
5. Ralston, "Job Creation."

# PEACE ARENA
## Theory vs. Practice

In each Newsletter, the Peace Arena offers a space for discussion between scholars and practitioners as they comment on a selected quote. This week we feature an exchange between: Robert Wrobel, Social Development Specialist, World Bank, and Benjamin Crost, Assistant Professor, University of Illinois. The quote for this issue is from an article entitled "A Critical Review of Community-Driven Development Programmes in Conflict-Affected Contexts" by Elisabeth King from the Balsille School of International Affairs:

*"As currently designed, implemented, and evaluated, CDD/R is better at generating the more tangible economic outcomes than it is at generating social changes related to governance and social cohesion, although even the economic effects are found in just a few studies."*

BY ROBERT WROBEL



As scholars such as Fukuyama and Robinson and Acemoglu show, prevailing social, economic, and political institutions are the product of centuries-long developments affected by highly contingent forces. CDD/R programs by contrast are designed to deliver relatively small amounts of assistance to communities over short time periods. CDD/R program designers, implementers, and evaluators must therefore exercise extreme caution in making claims that small, short-term programs can transform social and political institutions. At the same time, the research community tends to criticize CDD/R in the absence of a credible counterfactual against which to compare impacts.

However, a quick survey of the literature shows that the evidence of CDD/R's impacts on social change is much more mixed than this prompt implies. When designed in ways that account for local contextual factors, CDD/R programs can and do catalyze institutional reforms by introducing clear, simple sets of rules over how program decisions are made, resources are allocated, and results are accounted for. From seven rigorous studies of CDD/R programs[1] implemented across a range of countries and contexts, five find strong to moderate positive impacts on aspects of governance and social cohesion. One powerful example is Afghanistan's National Solidarity Program, which introduced democratically elected local councils responsible for producing and implementing community development plans at a time of great institutional flux and contestation. A rigorous impact evaluation found evidence of surprising social changes. These include, among others, durable improvements of levels of trust among male villagers, increased role of women in decision making, increased women's access to basic services, and increased voting by men and women in the 2010 parliamentary elections.

CDD/R programs alone will not transform deeply-rooted social, economic, and political institutions. However, when designed and implemented well, and accompanied by complementary reform efforts and investments, CDD/R programs can tip a community in the positive direction in its long-term institutional development trajectory.

BY BENJAMIN CROST

Impact evaluations have so far offered little evidence that CDD programs affect social change. However, this may be partly because it is simply very hard to measure social change, and we may have been looking in the wrong places.

Our recent paper in the *American Economic Review* finds strong evidence that a CDD program led to an increase in insurgent attacks in the early stages of program preparation.[2] The most likely explanation for this increase in conflict is that insurgents felt threatened by the program, so they increased attacks in order to keep it from succeeding. This would suggest that successful CDD programs do have negative effects on insurgents, by undermining insurgent influence in the long-term as they improve people's attitudes towards the government, essentially "winning hearts and minds." Unfortunately we do not yet have direct evidence of a change in attitudes and insurgent influence. Alternatively, insurgents may try to grab resources from the program. Further research on how and why CDD programs affect conflict is clearly needed to shed light on this.

There could be large returns to research how and why different types of aid projects affect conflict. The past few years have seen several studies that provide evidence for conflict-increasing effects of different types of aid and development programs, including food aid and rural employment programs. Understanding why aid can lead to an increase in conflict is an important step towards designing aid interventions that effectively reduce poverty in conflict-affected regions without exacerbating existing conflicts or creating new ones.

## Benjamin Crost's Reaction to Robert Wrobel

A sizeable knowledge gap remains on the effects of CDD. What steps can we take to learn more about whether and how CDD programs help change institutions for the better?

One problem with measuring institutional change is that there are many desirable outcomes and ways to measure them, and we do not know which ones will be affected by a program. If we measure large numbers of outcomes, we will find statistical evidence of program "effects" for some of them by pure chance.[3] Only reporting of these outcomes can thus lead to a distorted picture of a program's impact. To prevent this, we can increase the use of preanalysis plans. A pre-analysis plan is a public declaration of what impact outcomes a researcher will analyze to determine effects, thus preventing a researcher from analyzing everything and "cherry-picking" the outcomes that have statistical results.

Second, we can try to isolate different components of a program, to find out what works and what does not. For example, conditional cash-transfer programs are welfare programs that give cash to reduce poverty but are only given to eligible recipients that meet some requirement, such as getting vaccinations or sending their children to school. Recent studies of conditional cash-transfer programs have disentangled the effect of the conditionality from that of the cash-transfers to determine which matters more. Applying a similar approach to CDD programs, one could attempt to disentangle the effect of different components of community participation from that of the infrastructure investments, allowing for more effective interventions.

## Robert Wrobel's Reaction to Benjamin Crost

There is a reasonable level of evidence that CDD programs have spurred positive social change. In addition, robust analyses of large-scale, government-implemented CDD programs, such as those in the Philippines and Indonesia, show strong consumption gains for the poor and positive investment rates of return of sub-projects, thereby calling into question the proposition that "even the economic effects are found in just a few studies".

The structure of insurgencies and the relationship between insurgent groups and the state will vary widely from context to context. We must be cautious in generalizing findings from a single case, given that CDD programs are utilized in a variety of ongoing and postconflict contexts.

Further research into the different types of aid delivery and conflict is certainly welcome, as the existing body of research on aid in conflict tends to focus on CDD or similar types of interventions without establishing a credible counterfactual against which to compare CDD's impacts on social and economic change.

## Notes

1. James Fearon, Macartan Humphreys, and Jeremy Weinstein. "Can Development Aid Contribute to Social Cohesion After Civil War? Evidence from a Field Experiment in Post-Conflict Liberia." *The American Economic Review* (2009): 287–91; Katherine Casey, Rachel Glennerster, and Edward Miguel. "Reshaping Institutions: Evidence on Aid impacts Using a Pre-Analysis Plan." NBER Working Paper no. 17012, 2011; Macartan Humphreys, Raul Sanchez de la Sierra, and Peter van der Windt. "Social and Economic Impacts of Tuungane: Final Report on the Effects of a Community Driven Reconstruction Program in Eastern Democratic Republic of Congo." Unpublished, Department of Political Science, Columbia University, 2012; John Voss. "Impact Evaluation of the Second Phase of the Kecamatan Development Program in Indonesia." The World Bank, Jakarta Research Paper, 2008; Patrick Barron et al., "Community Based Reintegration in Aceh: Assessing the Impacts of BRA-KDP." The World Bank, Indonesian Social Development Paper 12, August 2009; Rosemarie Edillon, et al., "Final Survey for the KALAHI-CIDSS Impact Evaluation—Revised Final Report." Manila: The World Bank, May 2011; Andrew Beath, Fotini Christia, and Ruben Enikolopov. "Empowering Women through Development Aid: Evidence from a Field Experiment in Afghanistan." *American Political Science Review* 107, no. 3 (August 2013): 540–57.
2. Benjamin Crost, Joseph Felter, and Patrick Johnston, "Aid Under Fire: Development Projects and Civil Conflict." *American Economic Review* 104, no. 6 (June 2014): 1833–56.
3. Casey, Glennerster, and Miguel. "Reshaping Institutions."

# IN PRACTICE

The "In Practice" section presents the scope of peacebuilding activity in a specific country in the form of a short case study or through personal accounts.

## Economic and Financial Management Matters in Conflict: Afghanistan's Successful Reconstruction Trust Fund

BY WILLIAM A. BYRD, SENIOR EXPERT—AFGHANISTAN, U.S. INSTITUTE OF PEACE

In a country at war, economic and financial management tend to take a back seat; but these government functions—though seen as arcane and "technical"—are important. In Afghanistan, macroeconomic and public financial management (PFM) has been a success, including the 2002/03 currency reform, tight fiscal policy, good exchange rate and inflation management, effective utilization of donor assistance through the Afghan budget, and sustained improvements in PFM indicators. Even though these good practices did not decisively affect the conflict, things would have been far worse if Afghanistan had suffered, for instance, from high inflation, could not pay government employees' salaries, or did not build up eight months' imports worth of foreign exchange reserves as a cushion.

The Afghanistan Reconstruction Trust Fund (ARTF) is a coordinated financing mechanism that pools aid from more than thirty countries and channels it through the Afghan government budget to fund national development programs, civil servants' salaries, and other recurrent public expenditures. It is arguably the most successful multi-donor trust fund in any postconflict or conflict-affected country. Administered by the World Bank, and with a management committee including other international agencies, the ARTF has mobilized a cumulative total of more than $8 billion in donor contributions. It has enabled Afghanistan to access on-budget aid currently equivalent to around 15 percent of GDP, of which non-projectized aid (directly under Afghan government discretionary control) has reached close to $2 billion per year. Not only has the ARTF been instrumental in supporting government functionality and capacity development, but moreover, ARTF-funded national programs, such as public health, have achieved extraordinary development results. And the ARTF has helped bring about major improvements in PFM indicators: Afghanistan compares favorably with countries that in other respects are much better off, and far exceeds other fragile and conflict-affected low-income countries.

What were the ingredients of this success? First, the incentives of key actors—Afghanistan's Ministry of Finance (MoF), World Bank (ARTF administrator), and bilateral donors—were mutually consistent and well-aligned. The need for aid funds to be channeled through the Afghan budget (not least to pay civil servants' salaries at the beginning) made it imperative for the Afghan government and World Bank to improve PFM. A proactive, risk-taking donor provided a large up-front grant which enabled the ARTF's start-up, and then other donors started contributing to the ARTF.

Second, dynamics favoring increases in on-budget aid over time and further PFM improvements were set in motion. ARTF funding entailed requirements for documentation and accounting of money spent, meaning effective PFM systems, processes, and checks and balances had to be put in place, initially through outside technical support but increasingly with Afghan capacity. Learning by doing was critical, leading to better PFM implementation, declining financial risks, improving PFM indicators, acceptable audit reports, etc. Confidence that on-budget funds were being spent well, with risks of financial losses contained and minimized, encouraged donors to provide more to the ARTF.

In recent years, the ARTF Incentive Program has combined (1) a gradually declining baseline of ARTF reimbursements for the recurrent budget, (2) linkage of higher reimbursements to revenue performance and progress on agreed policy reforms, and (3) a facility incentivizing increases in operations and maintenance spending. This initiative has worked well.

The ARTF does face challenges: (1) stagnation of Afghan revenue, which may eventually undermine donors' support for on-budget aid; (2) ineligible expenditures submitted to ARTF for reimbursement—ineligibles do not imply loss of donor money but are a sign of weakness in basic PFM processes—(3) entrenched and pervasive corruption in general, though good PFM practices have reduced the vulnerabilities of budget spending to corruption; and (4) difficulties making the Afghan budget a strategic policy instrument. But these challenges are not insuperable.

The MoF officials, economists, PFM specialists, and donor representatives who worked together to make the ARTF a success probably did not think of themselves as peacebuilders, but their efforts have made a difference, and the situation would have been worse in the absence of the ARTF and more generally of sound macroeconomic management and PFM in Afghanistan.■

# IN PRACTICE

## Economics and Conflict: Measuring the Costs of Conflict in the Middle Belt States, Nigeria

BY BEZA TESFAYE, RESEARCH AND LEARNING ADVISOR, MERCY CORPS

Instability has consistently undermined Nigeria's development. Despite its enormous potential and growing economy, poverty is on the rise with 61 percent of the population—almost one hundred million people—living on less than $1 a day.[1] Much of this can be attributed to persistent conflict. In Nigeria's Middle Belt states, livelihoods generally vary between pastoralism, farming, or a mix of the two. Clashes between pastoralist and farming communities over access to land, water, and other key resources have negatively impacted the livelihoods and well-being of these communities as well as business and trade. Exactly how much cost these conflicts impose on communities, however, had not been accurately accounted for in monetary terms.

To fill this knowledge gap, Mercy Corps commissioned a series of studies on the economic costs of conflict in four Middle Belt states that quantify the state revenue lost and household income forgone due to conflict, as well as the potential gains in a situation of peace. In general, there are few economic development projects in the Middle Belt area that have an explicit peacebuilding objective, as peacebuilding and development programs in the region are typically siloed. Some organizations have focused on youth employment as a way to integrate economic development and peacebuilding goals, yet we often find that the relationship between employment and stability is indirect. Mercy Corps' approach to peacebuilding and economic development aims to build community resilience to conflict by strengthening the capacity of local leaders to resolve community conflicts and supporting inclusive natural resource management. Our recent research on the economic costs and benefits of peace comes out of this programmatic framework. Although previous research on peace dividends has focused on large-scale war, our studies intentionally hone in on the costs of intercommunal conflict, which in the Nigerian context is extremely prevalent and equally detrimental to economic growth.

*CONCUR Project in the Middle Belt Region. Photo Courtesy of Mercy Corps.*

If current levels of violence related to farmer-pastoralist conflict in the study areas were reduced to near zero, the Nigerian state could gain up to $11.7 billion annually.

The findings from the research are compelling: If current levels of violence related to farmer-pastoralist conflict in the study areas were reduced to near zero, the Nigerian state could gain up to $11.7 billion annually in macroeconomic progress and household incomes in rural communities could be increased between 64–210 percent of current levels. In terms of costs, violence levies an average of 43 percent reduction in state revenue, presenting a huge opportunity loss for the Nigerian government and citizens, who live in poverty.[2]

*CONCUR Project in the Middle Belt Region. Photo Courtesy of Mercy Corps.*

Equipped with this information, peacebuilders in Nigeria are able to mobilize private sector, government, and community leaders to work towards sustainable and effective solutions to addressing resource-based disputes. Through initial consultations, business and policy leaders are beginning to understand the magnitude of losses incurred by persistent conflict and recognize stability and peace as collective goals. As one policymaker in Benue State noted: "Knowing that our states lost hundreds of millions of Naira because of these conflicts is hugely important, particularly as Nigeria transitions to a non-oil economy." With knowledge of the magnitude of losses and the potential for stimulating growth through peace, Nigerian leaders now have a huge impetus to resolve persistent intercommunal conflicts which have been overlooked for far too long. ■

### Notes

1. National Bureau of Statistics. Nigeria Poverty Profile 2010.
2. Studies will be published in a forthcoming issue of the *Economics of Peace and Security Journal*.

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