



# Stabilization and Reconstruction

EMPLOYMENT AND ECONOMIC DEVELOPMENT SERIES

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## ABOUT THE REPORT

This report is based on a series of consultations under the auspices of the Employment Generation and Economic Development Working Group, chaired by Greg Huger, president of AirliePartners, and Harriet Hentges, former executive vice president of the U.S. Institute of Peace. The working group is part of the Institute's Filling the Gaps program, which aims to systematically address the causes of failure in specific areas within reconstruction and stabilization operations and to generate policy options for those in the U.S. government and elsewhere who lead and staff such operations. Filling the Gaps is directed by Beth Cole under the leadership of Daniel Serwer, vice president for Post-Conflict Peace and Stability Operations at the Institute. Johanna Mendelson-Forman, Ph.D., wrote this report with Merriam Mashatt, director of the Institute's Center of Innovation for Economies and Conflict, in the summer of 2006, when Mendelson-Forman was a guest scholar at the Institute. She is now a senior associate at the Center for Strategic and International Studies and a consultant to the United Nations Mission in Haiti. The authors thank Zoë Coopider for her research support.

The views expressed in this report do not necessarily reflect those of the United States Institute of Peace, which does not advocate specific policy positions.

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# Employment Generation and Economic Development in Stabilization and Reconstruction Operations

## Summary and Recommendations

- It seems logical that improving the lives of those who have suffered from conflict would include a program to generate economic well-being in the immediate period after hostilities subside. Yet livelihood creation, the root of potential economic success and security, has often become a secondary objective in the transformation from war to peace.
- An obvious reason for this relegation to a lower priority is that security, humanitarian needs, and restoring the rule of law often overtake the economic development priorities of any peace-building mission.
- Even in Iraq, the largest stabilization and reconstruction effort undertaken by the U.S. government, restoring livelihoods and getting people back to work remains an unresolved challenge and an unmet agenda. Of the nearly \$20 billion of U.S.-appropriated funds to reconstruct Iraq, only \$805 million was directed toward jump-starting the private sector.
- Although employment generation is not a new subject in "postwar" literature, lessons about implementation vary from one country to the next. Current knowledge about "golden hour" job creation, which is creating jobs within one year of the cessation of

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hostilities, is culled more from specific pilot studies than from a coherent overview of what tools exist and how they can be applied.

- This report advances current research by providing such an overview for U.S. government policymakers. It seeks to help the U.S. government work through the lessons learned about the processes needed to generate employment. Moreover, it explores the U.S. government strategy toward golden hour job creation, the existing civilian and military tools, and how these tools can be better incorporated into larger transformation efforts. The report also notes the limitations of U.S. civilian capacity in a nonpermissive environment.

## Recommendations

The following recommendations apply to cases where the United States is leading the reconstruction effort:

- Security will remain an essential component of any program that seeks to create economic opportunities in the wake of conflict. The military, in support of reconstruction and humanitarian programs, must be an active partner in any jobs creation program during the golden hour.
- As part of a coherent U.S. government plan, civilian and military agency directives should make employment generation a priority for resource allocation. An appropriate policy that draws on the strengths of the private sector and international agencies would illuminate and lead to the implementation of the essential activities during the golden hour.
- An ongoing interagency group, possibly located in the State Department's Office of the Coordinator for Reconstruction and Stabilization (S/CRS), is needed to bring together all the relevant U.S. government agencies and resources.
- Planning to link short- and long-term programs should start with an assessment of the demographic and economic characteristics of the working-age population in former conflict areas. This survey should focus on market demand, skill levels, infrastructure, availability of credit, and entrepreneurial capacity of the population.
- Plans to revitalize pre-existing industry facilities must include a conflict assessment in addition to traditional forms of economic analysis related to efficiency and competitiveness. The ultimate goals of this type of activity should be to both increase employment and to reduce conflict in support of the reconciliation process. If not carefully executed, well meaning schemes to revitalize economic activity, such as state-owned enterprises, could inadvertently empower spoilers and fuel conflict. Safeguards must be put in place to ensure that those empowered do not perpetuate conflict. These safeguards include real-time oversight, audits, boards of directors, and payroll mechanisms designed to benefit employees and limit corruption.
- Small, grassroots projects engaging the host nation's indigenous private sector are an essential part of reviving the marketplace, creating employment, and promoting local trade in the immediate postwar phase. Priority must be given to restoring trade, agriculture, and essential services.
- International and local private sector companies should be encouraged to participate in the initial planning processes for economic reconstruction. It is important that international agencies and U.S. programs recognize the limitations of initial private sector entry, except in the form of local or informal entrepreneurs.
- Every field commander should be provided with a tool kit of what needs to be done to allow for a transition or handoff to civilian development agencies that takes security into consideration in the planning process.

- Consideration should be given to expanding existing U.S. programs that support private sector involvement in developing countries to also include initiatives focused on the golden hour. These U.S. government programs include the U.S. Agency for International Development (USAID), the Overseas Private Investment Corporation, the Import-Export Bank, the Small Business Administration, and international and technical development programs administered by the Commerce Department.

## Introduction: The Golden Hour

The Employment Generation and Economic Development Working Group addressed job creation during the immediate transitional period when a society is emerging from conflict but has not yet achieved stability. The discussion focused on whether a “golden hour,” or window of opportunity, existed for employment generation and specifically whether conditions were ripe during this time frame for private sector participation in these transitional environments.

The participants, who included U.S. government and military leaders, representatives of the nongovernmental community, and representatives of the private sector, explored best practices in the area of employment generation. The group also examined how U.S. government assets could best be engaged to take advantage of a unique time frame that is unlikely to recur in the transformation setting—recognizing, of course, that multiple international actors contribute to overall reconstruction in each case.

The term *golden hour*, borrowed from the medical literature, represents a crucial moment that could mean the difference between life and death for a critically ill patient. In the world of postwar transformation, there is also a golden hour when the international community and the affected country can act either to lay a foundation for a full recovery from conflict or to set the path for a recurrence of fighting. In the area of economic development, actions taken during this time frame will determine success or failure in the medium to long term.

Harriet Hentges, cochair of the working group, commented that although there are no hard-and-fast rules, experience demonstrates that the golden hour lasts approximately one year after the cessation of fighting. During this important window, local stakeholders are willing to give peace a chance in spite of the hardships most of them endure in the aftermath of conflict. Fellow cochair Greg Huger underscored the importance of assessing the capacity of the extant economic flows that could be nurtured to enhance employment in the golden hour. He noted that it is “important to work with the indigenous population that exists on the ground and not with those you wish were there.” Only the U.S. military and USAID currently have this capacity for quick-impact programs. The challenge is to enhance and fully integrate the existing capacities of these U.S. government agencies for golden hour employment initiatives.

The first months of postwar actions are often the most important in setting the tone for what will ultimately be a long-term process of rebuilding, reconciliation, and peace-making.<sup>1</sup> Since the end of the Cold War, the United States has tried to capitalize on the golden hour but has often been unable to assemble the requisite tools, the collaboration, and the conditions that will make the most of this crucial period.

This report explores the state of U.S. government strategy in these situations as it relates to managing the human potential for employment generation and private sector engagement. This type of activity takes on many forms, ranging from humanitarian assistance programs to more sophisticated private sector missions to generate investment and rebuilding. While not a comprehensive guide to this subject, the report discusses a range of issues:

- The work of the military in rebuilding
- The impact of demobilization on the workforce

***The term golden hour represents a crucial moment that could mean the difference between life and death for a critically ill patient.***

- Humanitarian aid for refugees and internally displaced civilians
- The employment of women and youth
- The creation of an enabling environment—that is, good governance
- The potential for microfinance and the informal sector to be engines of early economic growth
- The role of the diaspora in generating resources
- Lessons learned about employment generation programs

## U.S. Government Strategy

Employment generation requires the close coordination of U.S. government agencies and international actors that have the tools to jump-start job creation, as well as immediate plans to put people back to work to ensure that basic reconstruction of infrastructure and community rehabilitation take place. The most current thinking in the U.S. government on how economic well-being should be integrated and phased in appears in the stabilization and reconstruction matrix published by the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) (see Table 1). Although the matrix recognizes the time frame in which economic life can realistically begin, it does not emphasize the multiple actors needed to actually implement such a program (for a select list of agencies with programs related to livelihood creation during the golden hour, see Table 2).

**Table 1. Selected Employment Generation Sections of S/CRS Essential Task Matrix**

<b>Goal: Respond to immediate needs</b>	
<b>Public Sector Investment</b>	Initial Response
<b>Public Works Jobs</b>	<ul style="list-style-type: none"> <li>• Design initiatives to provide immediate employment, soliciting project ideas from local communities</li> <li>• (I) Create opportunities for young males, including food for work</li> </ul>
<b>Micro- and Small Enterprise Stimulation</b>	<ul style="list-style-type: none"> <li>• Assess skills deficiencies</li> </ul>
<b>Skills Training and Counseling</b>	<ul style="list-style-type: none"> <li>• Assess and determine immediately employable labor force for appropriate critical and emergency needs</li> </ul>
<b>Public Sector Investment</b>	<ul style="list-style-type: none"> <li>• Prioritize public investment needs</li> <li>• Develop a plan to allocate resources</li> <li>• Pay civil service arrears</li> <li>• Determine structure and affordable size of civil service to meet ongoing and future needs</li> <li>• Strengthen ethics regulations</li> </ul>
<b>Public Sector Institutions</b>	<ul style="list-style-type: none"> <li>• (I) Identify operational capacity, including physical structure and security</li> </ul>
<b>Financial Sector</b>	Initial Response

**Table 1. Selected Employment Generation Sections of S/CRS Essential Task Matrix**

<b>Bank Lending</b>	<ul style="list-style-type: none"> <li>• Provide immediate credit including access to micro- and small and medium enterprises (SMEs) lending</li> <li>• Ensure that standard banking practices to approve loans are part of early credit programs</li> </ul>
<b>Trade</b>	Initial Response
<b>Trade Structure</b>	<ul style="list-style-type: none"> <li>• Evaluate tariffs, tax structures, and barriers to trade</li> <li>• Reduce restrictions on imports that hinder access to goods for small business and investors</li> </ul>
<b>Trade Facilitation</b>	<ul style="list-style-type: none"> <li>• Open or maintain line of credit mechanisms and trade credits to trade critical goods</li> <li>• Set trade priorities and explore new trade opportunities</li> <li>• Initiate dialogue between country economic team and international actors responsible for granting preferential trading status</li> </ul>
<b>Market Economy</b>	Initial Response
<b>Private Sector Development</b>	<ul style="list-style-type: none"> <li>• Assess the depth of the private sector, including weakness of the goods and service sector and its distribution channels</li> <li>• Identify obstacles to private sector development (barriers to entry; high import taxes; import restrictions; lack of business credit; lack of power, telecommunications, or transport; nonrepatriation of profits)</li> <li>• Take immediate steps to remove or counter these obstacles where possible</li> <li>• Jump-start small-scale private sector entrepreneurs through grants and loans to micro-entrepreneurs and SMEs</li> </ul>
<b>Small and Micro-enterprise Regime</b>	<ul style="list-style-type: none"> <li>• Identify constraints to small business development and take steps to remove them where possible in the short term (lack of credit, onerous taxes)</li> </ul>

**Note: (I) refers to infrastructure implication.** Adapted from "Post Conflict Reconstruction Essential Tasks Matrix," Office of the Coordinator for Reconstruction and Stabilization, Washington, DC, April 1, 2005. The matrix also includes medium- and long-term responses not reprinted here. Retrieved 10/2006 from <http://www.state.gov/s/crs/rls/52959.htm>.

The Department of State and the Department of Defense (DoD) are each implementing new directives that will improve U.S. government management of stabilization and reconstruction efforts. The National Security Presidential Directive 44 (NSPD-44), signed December 7, 2005, established the S/CRS, an interagency office within the Department of

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State. NSPD-44 authorizes the State Department to “improve coordination, planning and implementation of reconstruction and stabilization assistance” and requires integrated efforts to “harness the expertise of other federal departments and agencies.” The DoD issued the parallel Directive 3000.05 (November 28, 2005), which attempts to integrate military and civilian efforts. Directive 3000.05 commits the DoD to support reconstruction and stabilization activities as core military objectives, alongside the priority given to combat operations. This directive aims to create a military “prepared to perform all tasks necessary to establish or maintain order when civilians cannot do so.”<sup>2</sup>

As Lou Hughes, a former General Motors executive who worked in Afghanistan, lamented during the working group meetings, “The U.S. has no coherent strategy or vision for employment generation. For every transition it starts de novo. To be successful the U.S. must first create a livelihood creation package that provides technical support and resources to jump-start local projects, while also establishing a realistic partnership with private sector players and the international financial community for the medium- and long-term development programs.”

There is no one-stop shopping or coordination mechanism for job creation in the humanitarian assistance phase of a transformation operation. Through its history of community development, USAID has come closest to cobbling together a mechanism to support immediate on-the-ground economic recovery. The Office of Transition Initiatives (OTI), started in 1994, has demonstrated its flexibility of funding to permit on-the-ground support for employment and reconstruction in the golden hour. Unfortunately, the types of programs available are limited by the resources committed to civilian agency programs.

What exists today is a variety of agencies and programs that can help in the field. They include both military and civilian organizations, as well as nongovernmental organizations (NGOs). Additionally, the international community—the United Nations, the international financial institutions, and private NGOs—are all part of the complex web of institutions that provide assistance on the ground. A coherent strategy must begin with an understanding of each institution’s value added. Tables 2 and 3 provide illustrative lists of agencies that have livelihood and private sector development experience in the golden hour.

<b>Agency</b>	<b>Relevant Offices</b>	<b>Mission</b>	<b>Conflict Experience</b>
U.S. Agency for International Development	OTI programs; Office of U.S. Foreign Disaster Assistance (OFDA) programs	OTI: Works with civilians in fragile states; quick-impact projects (2–3 years) OFDA: Works with civilians in postdisaster environments; provides humanitarian assistance	Grants through contractors and NGOs
Department of State	Bureau for Population, Refugees, and Migration	Supports U.S. and international organizations that minister to humanitarian crises and natural disasters	Global coverage, but works through administration of grants

**Table 2. Agencies with Programs Related to Livelihood Creation during the Golden Hour**

Department of Defense	Commander's Emergency Response Program (CERP)	Quick-impact projects and small-scale infrastructure	Direct cash payments to civilians in Iraq and Afghanistan. Similar programs around the globe.
Department of Labor	Veterans' Employment and Training Service	Works on reintegration programs for former military. Expertise with veterans' programs	Grants through contractors and national governments
World Bank Group (includes the International Financial Corporation)	Conflict Prevention and Reconstruction (The Post-Conflict Fund), Infrastructure, Low Income Countries Under Stress	Restoration of lives and livelihoods in postwar environment; small-scale job creation programs; microfinance projects	Direct to United Nations, national governments, or local NGOs
United Nations Development Program	Bureau for Crisis Prevention and Recovery	Works with civilians to prevent armed conflicts, reduce the risk of disasters, and promote early recovery after crises	Grants to NGOs and UN field missions in all stabilization countries
United Nations High Commissioner for Refugees	Quick Impact Projects	Works with reintegration of returnees and displaced persons through small-scale, low-cost projects (often including income-generating and microcredit schemes)	Works with local organizations and self-funded programs wherever there are refugees
United Nations Children's Fund	Emergency funds for child soldiers	Works to return child soldiers to civilian life; includes education and training programs	Experience is global, with special emphasis in war zones
International Labour Organization	InFocus Programme on Crisis Response and Reconstruction	Technical assistance to promote mainstreaming of decent work through capacity building	Grants to local NGOs and UN field missions

**Table 3. Agencies with Programs to Support Private Enterprise**

Agency	Relevant Offices	Mission	Conflict Experience
USAID	Bureau for Economic Growth, Agriculture, and Trade	Supports micro-enterprise development; fosters favorable business environments	Grants through contractors, NGOs, or local governments
Department of State (temporary organizations)	Afghanistan Reconstruction Group (ARG); Iraq Reconstruction Management Office (IRMO)	ARG: high-ranking former U.S. private sector executives and government employees to serve in the U.S. embassy in Kabul IRMO: absorbed Coalition Provisional Authority senior advisors to Iraqi ministries	ARG: Afghanistan IRMO: Iraq
Department of Defense (temporary organization)	Project and Contracting Office	Reconstruction contracts to local private sector firms	Iraq
Export-Import Bank		Promotes and subsidizes U.S. exports	
Overseas Private Investment Corporation		Provides political risk insurance for U.S. investors	Limited conflict experience. Some work in Iraq during “golden hour”
Department of the Treasury	Office of Technical Assistance	Small office to provide advice in the following: budget, tax, banking, monetary policy, and enforcement	Works in many conflict settings.
Center for International Private Enterprise (an institute of the National Endowment for Democracy)		Private sector in policy advocacy and institutional reform, improving governance, and building understanding of market-based democratic systems.	Global coverage focused on developing countries. Some work in conflict settings.



**Table 3. Agencies with Programs to Support Private Enterprise**

U.S. Trade and Development Agency		Technical assistance, investment analysis, training, orientation visits, and business workshops that support the development of a modern infrastructure and a fair and open trading environment.	Global coverage focused on developing and middle-income countries. Some work in conflict settings.
Department of Commerce	Foreign Commercial Service and Iraq/Afghanistan Reconstruction Task Force; and Reconstruction and Stabilization Division	Supports private investment in postwar societies through information dissemination, business counseling, trade shows, etc.	Global coverage. Some work in conflict settings (Iraq and Afghanistan).
U.S. Trade Representative	Assistant U.S. Trade Representative for Trade Capacity Building	Negotiates trade agreements and supports congressionally mandated trade preferences to support export development in developing countries.	Global coverage focused on developing and middle-income countries. Currently no specific programs for stabilization.
Department of Agriculture	Foreign Agricultural Service	Collects information on foreign agricultural sector and provides technical assistance to U.S. investors who seek overseas markets	Some experience in postwar environments with support of imports; Food for Peace, PL-480 to use U.S. commodities for sale in developing and postwar countries to generate revenue; provides technical assistance in Iraq and Afghanistan on promoting local agriculture.

### Commander's Emergency Response Program (CERP)

In transitional environments where a society is emerging from conflict but has not yet achieved stability, the implementation of immediate-impact projects at the grassroots level is critical. The goals of this type of project are to engage the local population, address humanitarian needs, and boost employment. Delays caused by complex contracting regulations severely hinder the ability of leaders in-theater to implement rapid impact projects. In Iraq and Afghanistan, CERP addresses this problem through simplified contracting procedures that permit military commanders to respond rapidly to the pressing needs they encounter daily in the field. It is important to note that although CERP is a relatively new program, precedent for military participation in in-theater reconstruction activities spans decades.<sup>3</sup>

CERP originated in Iraq and was at first funded exclusively with seized Iraqi assets, oil sales proceeds, and donor nation contributions. By late 2003, appropriated U.S. dollars began to flow to CERP, and the program was extended to Afghanistan. As of October 2006, a total of \$1.98 billion has been directed toward CERP efforts in Iraq.<sup>4</sup>

The program has funded a wide range of activities including small (and a few large) infrastructure restorations, weapons buyback initiatives, and condolence payments. The program's activities as of September 2005 are listed in Figure 1 (note: The category "Other Reconstruction Projects" was primarily for condolence payments to Iraqis.).

**Table 3. Agencies with Programs to Support Private Enterprise**

World Bank	Private Sector Development, Poverty Reduction, Social Development Division, Microfinance	Multiple initiatives. Works with local companies to support development; also International Finance Corporation helps make loans in medium-term postwar environments. Conducts "needs assessments" and supports donor participation in the form of "Compacts"	Global coverage
UN Development Program	Global Compact; Regional Bureaus	Provides technical support for "responsible" private investment in postwar environments	Work on extractive industries, codes of conducts for conflict zones. Training with private sector

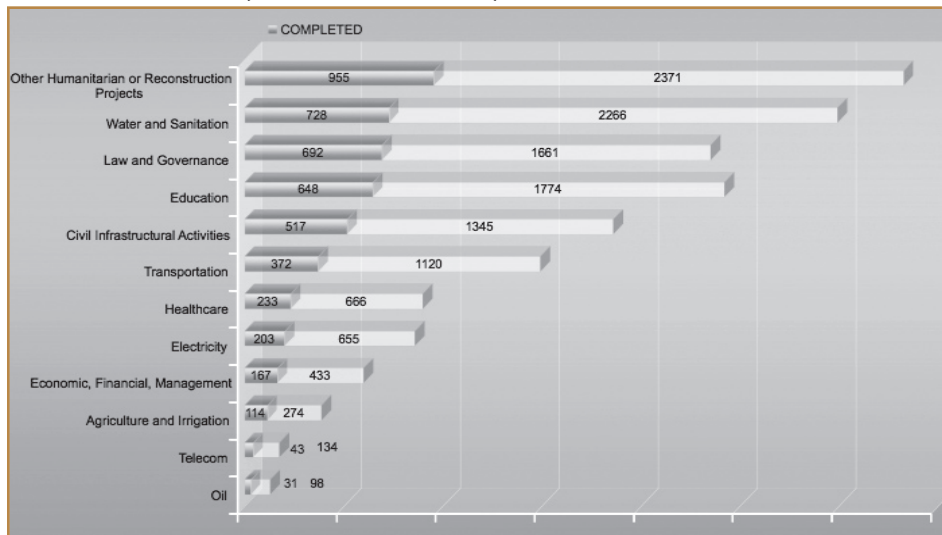
## The Military and Employment Generation

In recent years, with the growing engagement of U.S. armed forces in nation building, there has been renewed interest in livelihood creation activities at the field level as a means to help provide security for soldiers deployed in unstable postwar environments. The presence of military forces whose initial mission has been to secure the peace, however, does not necessarily guarantee that the enabling environment for economic development exists. At best, military programs provide the means to prevent hostilities from flaring and to protect forces on the ground by giving potential spoilers some resources. None of the military's programs is meant to be a long-term sustainable solution to job creation.

The fact that the military has become a central player in the first phase of employment creation is important as we examine the tools available to U.S. policymakers interested in stabilizing economic life. Even though the U.S. military has been a reluctant player in these activities, it has been able to implement on-the-ground work programs precisely because it has been given greater flexibility of resources, together with a mission requiring its troops to manage the potential security threats posed by groups of unemployed young men. The Commander's Emergency Reconstruction Program (CERP), used in Iraq and Afghanistan, provides a good example of both the benefits and the limits of such programs in generating sustainable work in fragile political environments (see the CERP box).

Lt. Gen. David Petraeus, U.S. Army, who participated in the working group, underscored the chief shortcoming of CERP this way: "We wanted to hand the ball off to somebody. We were looking in the backfield for anyone. We welcomed NGOs, agencies, brought them into our compounds, gave them assistance, communications, food, water. ...The challenge was expensive security for NGOs, civilian agencies, USAID and subcontractors. So it was sheer lack of standing organizations with this important capacity."

## TYPES OF CERP PROJECTS (AS OF SEPTEMBER 1, 2005)



Source: Special Inspector General for Iraq Reconstruction

## Impact of CERP

According to State Department and DoD audit reports, CERP is widely viewed as a success. Iraqis immediately felt the impact of CERP projects: the program employed thousands in Baghdad to clean streets, alleys, buildings, and public spaces. CERP projects also employed Iraqis to install hundreds of generators and air conditioners, as well as to repair jails and police stations in and around Baghdad. In other parts of the country, CERP projects accomplished water and sewerage repairs that provided clean water and improved health for local Iraqis.

CERP projects tended to be executed rapidly. For example, in the first eighteen weeks of the program, almost 1,800 CERP projects completed the repair of bridges, roads, and schools, among other things. Northern Iraq was the site of a notable CERP initiative. In the fall of 2003, the 101st Airborne Division partnered with the local population to complete more than 3,600 projects, valued at \$28 million. The projects included the refurbishment of more than 400 schools, employing thousands of Iraqis in the process.<sup>5</sup>

The international organization (IO) and NGO community have a different view of CERP. A recent Institute report on the Provisional Reconstruction Teams (PRTs) in Afghanistan notes that many IOs and NGOs have been critical of CERP funding.<sup>6</sup> The report states that while the PRTs had a reconstruction mandate, they often did not coordinate the work with local stakeholders, and that some of the projects that were completed, such as schools or other buildings, were done without any notion of sustainability. In addition, the humanitarian and international NGOs whose mission was to work with local actors clashed with the PRTs' notion of reconstruction, as they were concerned with the potential for confusion among local stakeholders between civilian and military aid.<sup>7</sup>

## Demobilization and Reintegration as Workforce Multipliers

As we have learned the hard way in so many countries, failure to provide former fighters with alternative livelihoods condemns them and the country to a return to violence. Reintegration is neither simple nor inexpensive, but it can mean the difference between war and peace. Young men, who comprise the bulk of fighters, need extensive assistance in education, training, and support to put them back to work.

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The U.S. government does not have just one source for demobilization programs. USAID has managed many of the more recent ones, having finally overcome the issue of disarmament and support for former soldiers. More recently, the U.S. Department of Labor has entered this arena, relying on its work with U.S. war veterans to see whether lessons garnered in this country could benefit veterans in other war-torn countries. Finally, the DoD has experience in retooling soldiers from the former Soviet states, but it has less experience in managing the fate of the average field soldiers beyond disarming them.

Usually, demobilization and reintegration programs are indicated in peace accords and are part of security sector reform. Some former soldiers return to security work through programs that use them in police forces or in reformed militaries. The best outcome, however, is to integrate those fighters into civilian employment. But in war-torn societies where employment opportunities are limited, security work is sometimes the only option. In Guatemala after the peace accords of 1996, many of the fighters wanted to return to rural communities. The peace commission was able to secure former coffee lands from the government, hoping that many of these fighters would form cooperatives and thus have a marketable crop for a global economy. Right after this decision was made and the lands were to be donated to fighters, the world coffee price skyrocketed. Private donors took back the lands originally scheduled for grants to the demobilized, and the project folded. This example underscores the difficulties of immediate work-producing programs, even when made with the best intentions.

## **Humanitarian Assistance**

In many cases, humanitarian organizations are the first to implement livelihood creation initiatives during the golden hour. These efforts are often managed in a disaster-assistance or postwar setting. Jobs that include the repair and cleanup of streets and other types of small-scale projects are the core of these programs, many of which focus on women, who are often their families' sole breadwinners. Humanitarian aid programs related to job creation tend to be quick impact and short term in nature. The challenge for policymakers is to integrate planning with these initiatives to ensure effective transition to civilian agencies. In the United States, the main civilian providers of these emergency programs include USAID's Office of Disaster Assistance and OTI, as well as the Department of State's Bureau for Population, Refugees, and Migration. At an international level, the family of UN agencies—ranging from the UN High Commissioner for Refugees to the UN Children's Fund to the Office of Humanitarian Coordination—all focus on this type of activity.

Although humanitarian aid is essential during the golden hour, it is important to distinguish between projects meant to be quick impact, but not enduring, and projects that will lead to lasting employment. Too often, the short-, medium-, and long-term needs are lumped together in ways that do not provide a strategic approach to this important part of economic recovery. There are vast differences among quick-impact projects, vocational rehabilitation, microfinance programs, and long-term job creation. Likewise, many different types of approaches are needed to generate employment for specific constituencies, such as refugees and internally displaced persons (IDPs), women, young men, and former soldiers.

## **Refugees and IDPs**

Today, seven out of ten refugees are located in developing countries, and assistance for them is inadequate and provided erratically.<sup>8</sup> Since the end of the Cold War, internal conflicts have produced a growing population of refugees and IDPs who require the attention of the international community. Resettling refugees and IDPs starts in the golden

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hour and requires both immediate humanitarian assistance and durable solutions to the economic issues that these people face. It is not merely the process of returning people to their homes that matters; the returns must convey an understanding that the repatriation will endure.

The sustainability of plans for returning refugees and the internally displaced is often difficult to assess, but unless programs are developed that address the needs up front, IDPs can create additional problems for a region's security and development. The U.S. government's programs for IDPs are managed through OFDA, which provides grants to international and local nongovernmental assistance groups. These grant programs recognize the need for initiatives that start in the golden hour, have a long horizon, and can remain sustainable for a number of years. Similarly, the UN High Commissioner for Refugees has devised programs that look for durable solutions through development aid directed at refugee-populated areas.

## Women and Youth

In the immediate post-conflict period, women and their offspring remain the primary victims of war. Supporting women's livelihoods also improves the children's survival and has a multiplier effect in the community. Nonetheless, it has taken the international community a long time to recognize and incorporate programming in the economic arena that would benefit women in the immediate postwar environment. To date, no specific inter-agency policy addresses a comprehensive strategy for supporting women in the aftermath of conflict. This is a missed opportunity in the golden hour. Women are not only a catalyst for peace but also a resource in economic planning for stabilization and reconstruction. Including women can ensure that resources are disbursed to those most in need.<sup>9</sup>

Even in normal development environments, youth (defined as between the ages of fifteen and twenty-four) are more likely than older people to be unemployed. Reasons vary, but the general lack of job-specific education, training, and marketable skills contributes to this condition. Rural employment is often easier to secure in countries where the agricultural sector is still operating.

The general principle of youth programs is that preventative intervention is the preferred route. But absent that opportunity, the best results occur when training is integrated with remedial education. Bringing youth leaders into broader economic development strategies and creating youth organizations that empower young people are considered the best ways to ensure that they can be part of the rebuilding process.<sup>10</sup>

In postwar environments, the challenge of integrating youth into employment generation programs becomes even more complex. Often young men—and sometimes women—who were recruited into military services during the conflict are engaged in the security sector. This group will frequently lack education or any job skills except firing a gun. But unless the needs of this group are met, the potential for destabilizing a fragile peace exists. No specific U.S. government programs target this vulnerable group, although attempts have been made to address this population in many postwar programs, from Sierra Leone to Afghanistan (girls' education) to Haiti.

Most youth employment programs try to integrate education and training with actual job creation. If educational attempts work to improve the quality of the labor supply, the integration of training and other types of incentives also helps move youth into a more sustainable program for medium- and long-term job creation. But given the overall demand from all civilians for work in a transformational environment, the policy challenge is to ensure that the needs of youth are given prominence, because they represent the next generation of citizens.

Different types of programs have been tried to achieve this goal during the golden hour, from community training centers to promote vocational skills to vouchers that give

***No specific interagency policy addresses a comprehensive strategy for supporting women in the aftermath of conflict.***

***Often young men who were recruited into military services during the conflict are engaged in the security sector.***

## Local Governance and Its Role in Economic Development: The Experience in Kirkuk

One recent story of how local governance programs can help promote economic stability comes from Iraq. The USAID program—which was started in the spring of 2003, after the war, and was managed by RTI International—combined the strengthening of local governance entities with employment creation. Underscoring the importance of giving citizens a stake in their government, the program worked in seventeen of the eighteen governorates of Iraq to demonstrate how providing the means to regulate a local government, including creating the means to receive resources from central government ministries, could help improve the climate for economic development.

Aaron Williams, vice president of RTI, discussed how a model program, tested in one area of Iraq, could potentially be applied in other parts of this highly divided nation. A 2003 initiative in Kirkuk, in the province of Ta'min, aimed at building a strong economy in one of the major oil-producing regions of the country. Ethnically diverse, it was seen as a pilot for improving democratic governance in an economically depressed region, where unemployment was a major source of social instability. Working through the provincial governing councils, the project supported increased citizen participation through stakeholder involvement in decision making. These local councils gave Iraqis the space for political discussions geared toward addressing major issues in the postwar period. They also provided a bridge  
*(continued on next page)*

families money to keep their children—especially young women—in schools. In some places, a Ministry of Trade and Industry will work with private sector investors to promote small-scale enterprise development. Less successful is using microfinance systems to provide working capital for small businesses.

## Enabling Environment for Investment: Governance, Rule of Law, Central Banking, and Anticorruption Measures

Since job creation is really a subtext of an operating economy, which assumes a capable state, it is unlikely that such a condition will prevail immediately after conflict. In the golden hour, the ability to advance the political space for economic well-being is determined by the security environment on the ground and by the presence of armed forces whose role is to ensure that the terms of a peace are implemented and enforced and that violations of agreements are limited. Such basic economic tasks as the ability to enforce contracts, to provide banking services, to establish credit, and to operate in ways that support public confidence form the enabling environment for development. Laying the foundation for good governance is also central to creating jobs and generating employment.

Predictable, impartial, and transparent governing systems are essential for the establishment of strong economic foundations in any society. Judicial systems are required that can uphold a contract, protect property rights, and guarantee commercial interests a process for producing reliable and enforceable results. No country can be part of the international economic community without such a system. Often, the economic aspects of legal reform are treated as secondary to the immediate need to provide justice to victims of war. The two areas, however, are equally important to create the foundation for economic and social rebuilding.

USAID Community Action Programs (CAPs) have a history of success in challenging postwar environments, and flagship programs have mobilized communities in Lebanon, Serbia and Montenegro, and Central Asia's Ferghana Valley. These programs encourage stabilization by focusing on the way local communities contribute to the reconstruction process. USAID gives local stakeholders a voice in the rebuilding process, thereby advancing the foundation for governance. USAID also provides small grants that can give citizens resources to get on with their lives. Such programming has most recently been applied to in Iraq with some degree of success (see box on Kirkuk).

The Iraq CAP works at the grassroots level throughout every governorate to foster citizen involvement in meeting local development needs. Coordinating with Iraqi communities, CAP assists local groups to identify needs and to implement responsive projects. CAP helps mitigate violence, providing citizens with an opportunity to participate in decision making and local development initiatives that affect their everyday lives. CAP directly engages Iraqis in reconstructing their own communities, while building a nationwide grassroots constituency for democracy. Since June 2003, CAP has created more than 1,303 Community Action Groups (CAGs), trained 17,281 CAG members, and assisted them to—

- build or repair **830 schools**
- repair **337 roads**
- complete **325 water resource projects**
- launch **298 health-related initiatives**
- improve **292 electric utility centers**<sup>11</sup>

Many U.S. government agencies are needed at the outset of reconstruction to help different parts of a recovering economy move forward. Table 3 provides an overview of the different types of programs that, working together, can help advance economic recovery and thus generate new jobs. The process of ensuring the stability of institutions,

the ability to overcome corruption, and the engagement of a country's leadership with global markets, however, is not an immediate outcome of any transformation program. Nevertheless, it is not unreasonable to consider that in the course of promoting good governance and creating the institutions that allow a government to operate, a permissive job creation environment becomes part of the larger state of socioeconomic well-being necessary to help move a country forward.

Plans to revitalize pre-existing facilities in order to provide jobs or spur the economy must include conflict assessments in addition to traditional forms of economic analysis related to efficiency and competitiveness. The ultimate goals of this type of activity should be to both increase employment and to reduce conflict in support of the reconciliation process. If not carefully executed, well meaning schemes to revitalize economic activity, such as state-owned enterprises, could inadvertently empower spoilers and fuel conflict. Safeguards must be put in place to ensure that those empowered do not perpetuate conflict. These safeguards include real-time oversight, audits, boards of directors, and payroll mechanisms designed to benefit employees and limit corruption.

A recent World Bank study on the private sector in Somalia offers some examples of how a clan-based society without a national government has managed to continue its economic life. The study suggests that basic systems of finance and some infrastructure services can function. The study does not advocate for leaving states ungoverned, but rather offers lessons for interim governments or weak states that are still in need of financial services, infrastructure assistance, and other types of commercial activities. Rudimentary legal systems and simple means of banking allow Somalis to receive funds from the diaspora, to purchase goods on the open market, and to have a currency that is legal tender. Those systems even provide a means to export agricultural products from the region.<sup>12</sup>

## Private Sector Development

The private sector embodies a large group of actors, ranging from local business operators to regional suppliers to multinational investors. Economic development arises not from foreign assistance alone, but primarily from foreign direct investment. This is both a blessing and a curse in countries undergoing a transformation from war to peace. If a war-torn country is fortunate enough to have natural resources, then there is greater potential for extractive industries and ancillary types of businesses to continue operation or to take root. But many postwar societies have scant natural resources to offer investors.

Local businesses can ramp up during the golden hour if there is a need for the type of work they do. The degree of destruction, the availability of a trained population, the openness of the supply chain, and the demand for their services or product often determine the ability of local entrepreneurs to work in a postwar setting. Construction and food workers often take on critical roles in the aftermath of conflict. Individuals with specific skills—medical, legal, linguistic, technical—are often sought in the reconstruction period to fill the needs of international assistance programs. This is important for the golden hour in that it puts resources back into the community.

Research into the timing of private sector foreign investments has been under way for many years. The World Bank group in particular has made some important economic findings concerning the types of investments that are best able to thrive in potentially unstable environments. A recent study on when the international private sector enters a transformational environment found that foreign investment usually occurs after the first year or two, when it becomes apparent that the security risks have diminished.<sup>13</sup> The only exceptions to this pattern are when an extractive industry has already been in-country or when infrastructure rebuilding is started with major government-funded construction contracts. This was the case in Afghanistan and Iraq, which then led to the use of private

### *Local Governance and Its Role in Economic Development: The Experience in Kirkuk Continued*

between the central government ministries in Baghdad and the local governing structures. Creating community organizations strengthened collaboration and planning of programs that would generate employment, resulting in the creation of 12,000 jobs and providing local Kirkuk contractors with a means of bringing local employees into the development of the Dalad Air Base.

The lessons accrued from this experience reinforce our understanding of the impact that good governance has on economic development, especially if done through the lens of local government. By allowing local communities to identify and address needs, new jobs as well as local economies were created that welcomed local entrepreneurs. This project emerged as a potential template against which to test local programs in other parts of Iraq. Finally, the experience in governance suggests that working outside a national capital can provide an important chance for early successes. In Kirkuk, investing in a large infrastructure project—something that did not happen in Baghdad in the early months after the Coalition was installed—reinforced security, put people back to work, and allowed the community to share hope for the future.

## **Contracting with Local Host Nation Firms**

The Army Corps of Engineers' Gulf Region Division and Project and Contracting Office made contracting with local Iraqi firms a priority. With regard to subcontracting, the reconstruction contracts built in incentives for prime contractors in Iraq to subcontract with local Iraqi businesses. Approximately 1,170 Iraqi companies received subcontracts totaling more than \$766 million. Fifteen Iraqi women-owned businesses received almost \$17 million in subcontracts. Also over 500,000 Iraqi men and women were trained in managerial, technical and "unskilled" tasks.<sup>14</sup>

As local Iraqi private sector capacity to carry out reconstruction projects grew, the Army's Joint Contracting Command strategy evolved into an approach that provided more rebuilding contractual opportunities directly to Iraqi firms. As of September 2006, more than 70 percent of the Army Corps of Engineers Gulf Region Division—Project and Contracting Office (GRD-PCO) Iraq Relief and Reconstruction Fund projects were directly contracted, mostly with Iraqi firms. The actual funding of direct contracts represented approximately 40 to 50 percent of the construction budget. The value of contracts and subcontracts going to Iraq private sector firms is estimated at more than \$2.5 billion.

Although Iraqi reconstruction contracting activity generated employment, it was not enough to alleviate the unemployment problem. A more robust assistance program integrated with the contracting opportunities was needed, including increased levels of microcredit, entrepreneurial programs, and the development of business centers and vocational training centers. Security issues and limited resources rendered initial USAID contracts encompassing these types of programs only marginally successful.

sector subcontractors who, in turn, hired thousands of local workers (see box on Iraqi direct and subcontracting activity).

The types of industries most likely to be the initial investors in a country emerging from war, in addition to those related to natural resources, are the telecom/cell-phone industry; the construction/infrastructure business (which includes water, electricity, and roads); and the commercial banking sector, which is needed to help jump-start investment in any economy.

The World Bank research notes that firms that invest in high-risk environments tend to be smaller corporations that are less risk averse and do not fear potential damage to their international branding (multinationals are reluctant to risk their reputations).

U.S. government experience in this area is limited because it lacks the coordination needed to bring this diverse sector to the table. In spite of a variety of instruments for support of investment—from risk insurance from the Overseas Private Investment Corporation to tax incentives through legislative acts (export financing and country-specific provisions in trade bills such as the African Growth and Opportunity Act)—these tools are not readily accessible to those interested in these types of ventures. A working group participant who had spent his career in a Fortune 100 company stated the problem best when he noted that the U.S. government has the resources, "but we have been slow to march. The military's job is to get things back in order again. The embassy people's traditional role is to observe and report, not to be active agents of change, so we can't expect them to do that either. USAID has the legal mandate to develop countries, but they've been systematically starved of resources in the last ten to fifteen years. Congress would rather they not do it, and gets other companies to do it. The USAID charter needs to change so they have more in-house experts, technical confidence to tell if a guy is building a road/power system correctly.... It will be very difficult to build a functioning, free-market economy without the people who have actually done that work. Business is like running a hot dog stand. It's not rocket science, but you need experience."

## **Microfinance in Stabilization Environments and the Role of the Informal Sector**

A study on the ways microfinance mechanisms can be effective in stabilization environments included field research in postwar Angola, Cambodia, Mozambique, and Rwanda. The study revealed that microfinance can have an important impact on coping with already high poverty levels if such mechanisms are widespread and used on a large scale. But it is also clear that while NGOs have tried to call early financial intervention microfinance, they were actually making grants rather than expecting repayment.<sup>15</sup> What has been done is informal microfinance, starting in refugee camps and continuing when refugees are returned to their home areas. The objectives of these informal systems vary, from profit maximization by some career moneylenders to social-oriented objectives by village groups or other organizations. What distinguishes microfinance in emergency settings is that lenders often take more risks. But it is also true that microfinance develops very rapidly, even during a conflict. The system is based on trust of the borrower, and the type of finance is informal.

The street is often a good indicator of whether commerce has started. The presence of an informal market is often the first signal of a return of economic life. In the developing world, the informal sector provides the main form of employment for most of the workforce.<sup>16</sup> As Peruvian economist Hernando deSoto notes, "The informal economy is the people's spontaneous and creative response to the state's incapacity to satisfy the basic needs of the impoverished masses."<sup>17</sup>

In this period when the state is fragile, "this new business class is a very valuable resource: it is the human capital essential for economic takeoff. It has meant survival for



those who had nothing and has served as a safety valve for societal tensions. It has given mobility and productive flexibility to the wave of migrants, and is in fact doing what the state could never have done: bring large numbers of outsiders into the country's money economy. . . . The overwhelming majority of the population has one goal in common, to overcome poverty and succeed."<sup>18</sup>

Individuals who are not part of the regular economy are still important actors in that they operate in the open market and are vital to the continued growth of the country. But they are not really stakeholders in the country's future since they are not taxpayers, nor do they reap any of the benefits of government in the form of pensions or some type of social safety net. Moreover, some stakeholders in the informal sector can actually be spoilers—such as the narcotics traffickers in Afghanistan—who have an incentive to destabilize the legitimate government. The challenge for reconstruction is to turn this important part of the developing economy into a group that sees its future in the stability and growth of the government.

## Diaspora Investments

Diasporas contribute to the economic reconstruction of their homelands by working with relatives, national governments, and their own chambers of commerce to attract capital to many former war zones. Afghanistan is a prime example of a country that has benefited from its citizens living abroad and investing in SMEs in spite of the conflict. Because the diasporas' purchase and investment motivations can differ from those of buyers and investors outside the community, it is important to recognize that they are a particular variation on the general principle that private investment usually arrives late in war-torn states. Ashraf Ghani, Afghanistan's former finance minister, noted that "the key to reviving the collapsed manufacturing and commercial sectors" was created by the diaspora. For example, a \$25 million Coca-Cola plant was built by an Afghan living in Dubai. Of thirteen commercial banks, two were funded by members of the Afghan diaspora.<sup>19</sup>

These groups, which are most likely to initiate investment, also need additional regulatory support, especially when it comes to remittances. Currently, despite numerous suggestions, the United States has no specific coordinated regulatory mechanisms for monitoring remittances. These funds can play an essential role in support of families who need immediate assistance to get them through the worst of any crisis.

*Currently, the United States has no specific coordinated regulatory mechanisms for monitoring remittances.*

## Lessons and Recommendations

### *U.S. Strategy and Coordination*

**Lesson—Focal Point:** Postwar economic development is a process, and coordination of U.S. government agency and international donor initiatives will require a focal point that can provide immediate support in the golden hour. The focal point will also provide a means of including the private sector in planning for the country's medium- and long-term needs.

**Recommendation:** Understanding the capacity of different agencies with different tools to support job creation is a first step, but an ongoing interagency group, possibly located in S/CRS, will be needed to bring together all the relevant agencies and resources. This group will also need a liaison function with international organizations, bilateral donors, and the international financial groups that will invest in the short, medium, and long terms.

**Lesson—U.S. Plan:** The U.S. government does not have a coherent strategy for employment and livelihood creation in transition and stabilization environments, nor does

it make employment creation a priority, with the exception of its role in demobilization and reintegration programs. While the S/CRS matrix is an excellent place to start, there is really no effective coordination of U.S. government resources to address golden hour opportunities.

**Recommendation:** New directives to civilian and military agencies should agree to make employment generation a priority of resource allocation. Interagency plans for employment generation should be immediately executed during the golden hour. Tables 2 and 3 should be refined and expanded by an interagency working group specifically dedicated to employment generation. As a start, USAID needs to have a rapid response team for employment creation that includes representatives of the private sector and members of the respective diaspora groups. Such a team will assess what can be done in the short, medium, and long terms.

**Lesson—The Legal–Regulatory Environment:** Although some U.S. government support for dealing with commercial law exists (the Department of Commerce’s Commercial Law Development Program and USAID), there are no programs specifically geared to dealing with the immediate aftermath of conflict.

**Recommendation:** The U.S. government must help create and implement a legal/regulatory framework in the host nation for the initial period after a conflict. This framework should be part of a larger tool kit for economic development in transformation and stabilization efforts.

**Lesson—Transition from Military to Civilians:** The U.S. military can provide important on-the-ground support for quick-impact job creation. But these programs are not intended to become solutions to employment needs; rather, they support the security and stabilization mission. To be effective, they must be sequenced with the work of international civilian agencies and with the private sector to allow for handoff of employees, functions, and support. The military’s role is filling the gap, not developing the economy.

**Recommendation:** Flexibility and access to resources have been the hallmarks of the military’s action-oriented approach to job creation. Civilian agencies must be engaged from the outset in these military programs so they can be available on the ground to make a transition from the military to a civilian job corps. Failure to create a regular handoff mechanism creates huge security risks for the development community. Legislative authority that permits civilian agencies to work with the military in implementation of job programs needs to be supported.

**Recommendation:** Provide every field commander with a tool kit of what needs to be done, and allow for a transition or handoff to civilian development agencies that takes security into consideration in the planning process.

**Lesson—Decentralize:** Community-based programs that allow residents to participate in the rebuilding process are the most successful forms of immediate job creation programs because they are decentralized and engage local stakeholders from the start. These types of rebuilding projects are usually not expensive in terms of international assistance, but they are very useful in building trust, healing communal differences, and bringing different groups together for a common goal.

**Recommendation:** These types of programs can be started even while some parts of the country are still insecure. But using these programs will require cooperation among various agencies and an “off-the-shelf” product that gives adequate resources and control to a local organization (an NGO) that can help ensure that the programs will be implemented quickly, with a high degree of transparency.

## *Military*

**Lesson—Reconstruction:** Large-scale construction programs involving state-of-the-art facilities are not effective during the golden hour. The length of time needed to

contract, conduct consultations with the host nation, and design these types of facilities extends beyond the immediate post-conflict phase.

**Recommendation:** Small, grassroots projects using host-nation-appropriate technology should be implemented immediately. Even these types of programs will require advanced planning for the types of projects that make sense for each country, as well as oversight of how the funds are spent. If a competent host nation construction-type ministry exists, the United States should provide grants directly to this ministry to contract with local companies—such as the grant agreement between the United States and the Iraqi Ministry of Housing and Construction. If foreign contractors are used, they should begin immediately to hire local workers and subcontractors on a wide range of projects, not only to create jobs but also to provide some evidence of progress in the rebuilding process.

**Lesson—Inadequate Short-Term Planning:** In Iraq, most U.S.-appropriated funding was used for design-build infrastructure projects, security forces training, and equipment procurement. The contracting strategy generally did not focus on supporting smaller projects at the local level that could provide immediate improvements in basic services.

**Recommendation:** Future efforts should plan for immediate impact grassroots projects from the very start. Congress should legislatively institutionalize programs such as CERP for easy implementation in future contingency operations. CERP and similar initiatives in Iraq proved the value of relatively small, rapidly executable projects that meet immediate local needs and thereby enhance relations with local communities.

**Lesson—Linking Short-Term to Long-Term:** Similar to USAID's short-term job creation programs, the benefits of CERP with regard to long-term job creation are not clear.

**Recommendation:** Strategic planning is needed to link short-term emergency programs to long-term host nation and private sector employment-generating initiatives. This planning should start with an assessment of the demographic and economic characteristics of the working-age population in former conflict areas. This assessment should focus on skill levels, infrastructure, availability of credit, and entrepreneurial capacity of the population.

## *Humanitarian*

**Lesson—Integration:** Humanitarian agencies (government and nongovernment), along with the U.S. military, are the front line of job creation organizations in the wake of war. They buy time for the development of longer-term programs. These organizations will need support from groups engaged in economic development projects so that their initial investments in people and projects are integrated into the broader development mandate.

**Recommendation:** Short-term livelihood creation should be considered a parallel program to larger job creation efforts. Such efforts should not be subject to cutoff dates; they should be flexible so they can be expanded and used in different sectors of a country. Because the time needed for the private sector to develop projects after conflict may vary, flexible programs that allow the continuation of assistance will be essential to sustain economic life. As for other short-term programs, a transition “tool kit” is needed to ensure appropriate handoff to longer-term civilian agencies.

## *Private Sector*

**Lesson—Private Sector:** Private sector involvement in postwar environments depends on the nature of the on-the-ground security capacity of the host nation population and the level of infrastructure destruction. Extractive industries, construction, telecommunications, and banking interests are the most common types of private investments in high-risk countries, and the average time for entry is after the first year or two of peace.

**Recommendation:** International companies should be encouraged to participate in initial planning processes for economic reconstruction. It is also important that interna-

tional agencies and U.S. programs recognize the limitations of initial private sector entry, except in the form of local or informal entrepreneurs. Consideration should be given to expanding existing U.S. programs that support private sector involvement in developing countries to also include initiatives focused on the golden hour. These U.S. government programs include USAID, the Overseas Private Investment Corporation, the Import-Export Bank, the Small Business Administration, and international and technical development programs administered by the Commerce Department.

**Lesson—Women:** Women are often the most needy and least cared for in postwar societies. Assistance to women is essential, and they should be the first group to be included in programs that will help them put food on their tables, care for their children, and restart lives that have been disrupted by war. At present, there is no U.S. government strategy for assisting women during the golden hour.

**Recommendation:** An interagency working group on women, together with representatives of the international community, should create a package of programs that can be used in the days immediately following a conflict. These programs should address the specific needs of women in conflict zones. Knowledge exists on what types of programs are best suited to urban versus rural environments; what is needed is a means to act on these situations. USAID should have a specific set of programs to be placed in the field immediately, with decentralized funding and the capacity to continue for at least two years.

**Lesson—Diasporas:** Diasporas contribute to the economic reconstruction of their homelands by working with relatives, national governments, and their own chambers of commerce to attract capital to many former war zones.

**Recommendation:** The United States should have a coordinated regulatory mechanism for monitoring remittances.

## Notes

1. See International Peace Academy, *The Political Economy of War and Peace*. Seminar Report (New York: International Peace Academy, May 2002). This report provides an overview of the challenges of designing and implementing economic reconstruction, and discusses potential obstacles to rebuilding.

2. Special Inspector General for Iraq Reconstruction, January 2006 Report to Congress, p. 166–167.

3. According to *America's Role in Nation Building from Germany to Iraq*, the post–World War II occupations of Germany and Japan were America's first experiences with the use of military force in the aftermath of a conflict to underpin rapid and fundamental societal transformation. Both were comprehensive efforts that aimed to engineer major social, political, and economic reconstruction. "Since the end of the Cold War, the United States has felt free to intervene not simply to police cease-fires or restore the status quo but to try to bring about the more fundamental transformation of war-torn societies" (Dobbins, James, Keith Crane, Seth G. Jones, John G. McGinn, Andrew Rathmell, Rollie Lal, Brett Steele, Rachel M. Swanger, Richard Teltschik, Anga Timilsina. *America's Role in Nation-Building from Germany to Iraq* (Santa Monica, CA: RAND, 2003), p. xiv).

4. Special Inspector General for Iraq Reconstruction, *Annual Report to Congress*, January 2006.

5. Lieutenant Colonel Mark Martins, "No Small Change of Soldiering: The Commander's Emergency Response Program (CERP) in Iraq and Afghanistan," *The Army Lawyer*, February 2004, Issue 369, pp. 1–20.

6. *Provincial Reconstruction Teams: Military Relations with International Organizations and Nongovernmental Organization in Afghanistan*, United States Institute of Peace Special Report 147 (Washington, DC: United States Institute of Peace, September 2005).

7. See Robert N. Perito, *The U.S. Experience with Provisional Reconstruction Teams in Afghanistan: Lessons Identified*, United States Institute of Peace Special Report No. 12 (Washington, DC: United States Institute of Peace, October 2005).

8. Gil Loescher and James Milner, *Protracted Refugee Situations: Domestic and International Security Implications*, Adelphi Paper 375 (London: International Institute for Strategic Studies, July 2005) pp.74–75.

9. Camille Pampell Conaway, *The Role of Women in Stabilization and Reconstruction*, United States Institute of Peace Stabilization and Reconstruction Series, No. 3 (Washington, DC: United States Institute of Peace, August 2006).

10. World Bank, *World Development Report, 2007, Development and the Next Generation*, retrieved February 5, 2007, from <http://www.worldbank.org/wdr2007>.

11. See [www.usaid.gov/iraq/accomplishments/cap.html](http://www.usaid.gov/iraq/accomplishments/cap.html).

12. World Bank, *Private Sector Development*, Note no. 280 (Washington, DC: World Bank, November 2004).

13. See John Bray, *International Companies and Post-Conflict Reconstruction: Cross-Sectoral Comparisons*. The World Bank Social Development Papers. Paper No. 22 (Washington, DC: World Bank, February 2005).

14. *A Report on Iraq Reconstruction*, Department of the Army, Office of the Assistant Secretary of the Army, Acquisition, Logistics and Technology (ASA(ALT)), September 29, 2006.

15. See Tasmin Wilson, *Microfinance During and After Armed Conflict: Lessons from Angola, Cambodia, Mozambique, and Rwanda*. (Durham, UK: The Springfield Centre for Business in Development, March 2002).

16. Bosnia's Arizona Market has been touted as an example of an informal sector being allowed to generate post-conflict economic and social recovery. The market, which grew up around a NATO checkpoint, received U.S. military and NATO support in the form of law enforcement around the marketplace and the provision of a secure trading environment. The intervention enabled a marketplace to emerge despite the devastation in and around Brcko, a critical boarder town called a "black hole" during the conflict. Today, it is a vibrant city of 80,000 Serbs, Muslims, and Croats. While it is true that a protected, multi-ethnic market did flourish, critics are quick to point out that it has evolved into a hotbed of black-market activity, including drug and sex trades. See Bruce Scott and William Nash, "Brcko and the Arizona Market," Harvard Business School & Council on Foreign Relations (2005), retrieved from <http://www.nextbillion.net/multimedia/2005/12/08/brcko-and-the-arizona-market>; Chris Hedges, "Bosnians Burying Their Differences, With Money," *New York Times*, October 17, 1996 Retrieved on October 6, 2006, from <http://www.nytimes.com/specials/bosnia/context/1017yugo-bosnia-market.html>; Aljazeera.net, "Brcko —a rare Bosnian success story," November 17, 2005, retrieved March 20, 2007 from <http://english.aljazeera.net/English/Archive/Archive?ArchiveID=16328>.

17. For an in-depth study of this subject, see Hernando de Soto, *The Other Path: The Invisible Revolution in the Third World*. (New York, Harper & Row: 1989)

18. de Soto, *The Other Path*, p. 244.

19. See Liesel Riddle and Valentin Marano, *Homeland Export and Investment Promotion Programs for Diaspora: The Case of Afghanistan*, unpublished manuscript from June 16, 2006, conference on Diasporas and Development, George Washington University, Washington, D.C.

## Notes

## Notes

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### *Related Resources*

- Beasley, Kenneth W. *Job Creation in Postconflict Societies*. USAID Issue Paper No. 9, April 2006. Washington, DC: USAID.
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