

Helpdesk Research Report: Long-term Job Creation in Fragile States

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Query: Please identify literature on the theme of job creation and fragile states, particularly - where available - literature on how to create sustainable employment in the longer term, how donors can help with this, and examples of successful and unsuccessful interventions.

Enquirer: Growth Team, DFID

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1. Overview

There is very limited literature on the promotion of sustainable longer-term employment in fragile states. Most resources on job creation focus on short-term job creation and income-generation in conflict-affected contexts. There is, however, some discussion on how to link short-term job creation efforts with longer-term action that lays the foundation for sustainable jobs and development (e.g. by incorporating private sector development and skills training). Of the literature that does look into longer-term employment, the focus is primarily on conflict-affected environments. Nonetheless, many of the themes and findings in this set of literature can be relevant to fragile contexts. The following are the most commonly cited elements integral to sustainable job creation:

Enabling framework for economic growth and sustainable job creation

An enabling framework includes physical and macroeconomic stability and the design of laws, regulations and policies that: protect land and property rights; allow for enforceable contracts; minimise investors' risk exposure; reduce the cost of doing business and encourage private sector hiring; protect the rights of workers; and facilitate access to credit. Donors can provide support in drafting legislation, simplifying legal and regulatory systems, and strengthening rule of law capabilities. They can also encourage country governments to integrate employment programmes in national and local strategic frameworks.

Consultative process

Tripartite social dialogue between government, workers' and employers' organisations as well as engagement with civil society is considered essential to longer-term efforts to promote economic growth and employment. Such dialogue is aimed at improving transparency and securing broad agreement by jointly developing policies and 'rules of the game'. Inclusive discussions can also facilitate trust-building and address issues of social exclusion in conflict-affected contexts. Donors should also engage with local actors in programming in order to ensure that donor interventions match business and worker needs. Involving business communities in defining donor programming can also restore the business community's confidence, necessary to long-term growth and stability.

Market development and value chain analysis

The adoption of a market development and value chain approach are considered essential to moving beyond short-term job creation and supply-side problems to targeting longer-term increase in the demand for skilled employees. Market development programming seeks to understand market trends, the constraints that small enterprises face in achieving profitability (which may be many in fragile contexts), and ways in which to alleviate these constraints. Value chain analysis contributes to private sector recovery by identifying market opportunities and missing inputs. Such market analyses and assessments allows for the identification of opportunities with a high probability of growth and employment generation and the creation of market linkages that can increase productivity.

Private sector development

There is much consensus that the private sector provides a strong basis for sustainable growth and long-term job creation. A strategy for private sector development should be incorporated up front in programme design and analysis, with sufficient staff and resources allocated to outreach to private business firms and the maintenance of relationships with the private sector. In fragile states, however, the 'private sector' is often informal and broadly defined as 'any person who sells something aiming to make a profit'. Given these ambiguities, donors have frequently bypassed businesses in the implementation of reconstruction programmes in favour international suppliers and NGOs. This, however, is a missed growth opportunity for many small- and medium-enterprises. Instead, donors should seek to rely on local labour, local suppliers and local entrepreneurs whenever possible. Other key aspects of developing the private sector are appropriate infrastructure, business development services, business associations and access to financial services and credit.

Skills training and labour market analysis

There is also much consensus that skills training and workforce development is essential for sustainable job creation. This can involve sectoral and vocational training and education, entrepreneurial skills development, career planning, apprenticeships and enterprise-based training. Such programmes, however, must be developed alongside labour market assessments in order to ensure that there is there is a demand for the skills being developed. It is also important to promote the productivity of enterprises and to help build the capacity of employers to expand and to absorb more workers.

Public sector involvement

The public sector is often the employer of first resort in conflict-affected contexts, for example through labour intensive public works. These short-term employment programmes can be linked though to longer-term employment. The adoption of procurement guidelines, monitoring tools and contractor training programmes can encourage a shift from public sector participation to competitive bidding among private contractors. As the private sector begins to recover, public employment can evolve into a safety-net 'employer of last resort' programme. Maintaining this safety net is important in conflict-affected and fragile contexts.

2. General

Beasley, K. W., 2006, 'Job Creation in Post-Conflict Societies', Issue Paper, no. 9, USAID, Washington, DC http://pdf.dec.org/pdf_docs/PNADE194.pdf

This paper reviews key lessons and best practices in job creation in post-conflict societies and highlights principle issues and challenges in transitioning from serious crisis to stable, long-term employment. It notes that to date, job creation projects have often adopted a short-term outlook with no linkages to the promotion of long-term employment. In order to facilitate the transition to sustainable employment, the paper recommends:

- Measures to encourage local economic development should begin as soon as there are viable prospects to peace and should incorporate permanent job creation.
- The private sector should be promoted at all stages of post-conflict recovery through assistance to micro- and small enterprise development, smallholder agriculture, cooperatives for farmers and other producers, and public-private partnerships.
- An enabling transparent regulatory framework should be established that allows the private sector to contribute to economic growth and employment. Particularly important are legal institutions that guarantee property rights and contracts and properly functioning financial markets.
- A macroeconomic policy environment should be established that supports private sector investment and job creation. Tax policy should promote the growth of business and not tax labour so heavily as to discourage private sector hiring.
- Monitoring and evaluation activities associated with post-conflict assistance programs should focus on both near-term (emergency) and long-term job creation.

McLeod, D. and Dávalos, M. E., 2008, 'Postconflict Employment Creation for Stabilisation and Poverty Reduction', Fordham University, New York
<http://www.fordham.edu/economics/mcleod/PostConflictEmployment10.pdf>

This paper examines the role of employment programmes in promoting inclusive and sustained growth in post-conflict contexts. It looks at public employment programmes in the immediate aftermath of conflict and transitions to reliance on the private sector. It notes that public employment schemes that are often necessary in the aftermath of conflict can have long-term benefits. For example, for many youth, such schemes provide them with their first experience with organised employment which can have lasting impacts on earnings and employability. As the private sector begins to recover, it recommends that public employment evolve into a safety-net 'employer of last resort' programme and that compensation rates should be low enough to allow for self-targeting of the most needy. Alongside, livelihood creation programmes, attention should also be given to helping workers find jobs or business opportunities in the private sector.

Blum, R. and LeBleu, J., 2009, 'Employment Generation in Post-Conflict Environments: Linking Short- and Long-term Initiatives', in Stabilisation and Economics Growth Workshop: Interim Report, 25 March, CNA and US Army Peacekeeping and Stability Operations Institute <http://www.cna.org/documents/D0020281.A1.pdf>

This paper discusses employment generation immediately following protracted conflict. It highlights the importance of linking short-term job creation efforts with longer-term action that lays the foundation for sustainable jobs and development. It focuses on a case study from Haiti, where USAID and CHF International, in cooperation with international and Haitian partners, are implementing an \$87 million employment generation programme (KATA) employing over 100,000 youth at risk in five urban centers. The paper outlines the following lessons learned and recommendations:

- Infrastructure often represents the sector with the greatest potential for rapid growth and rapid creation of jobs in the immediate post-conflict environment.
- Economic mapping, market assessments, reviews of household economies, and a comprehensive examination of industries and specific value chains can help to identify opportunities with a high probability of growth and employment generation. In the case of Haiti, CHF has applied a value chain approach and set up mechanisms to improve the competitiveness of Haitian construction firms by helping them build their capacity to respond to bids, prepare appropriate budgets, uphold quality standards and transparency. This will in turn help to stimulate long-term employment.
- Microeconomic programmes should seek to strengthen existing relationship within the private sector rather than trying to forge new relationships between conflicting groups.

- Multiple stakeholders (private sector, public sector, and civil society) should be involved in programming to ensure transparent and inclusive decision-making.
- Key change agents that have influence but are not entrenched in the status quo or in conflict dynamics should be identified.
- Local labour should be relied upon whenever possible, regardless of whether projects are implemented directly or through subcontractors.
- Workforce development (e.g. career preparation, career development, career transition) can be promoted alongside initiatives aimed at short-term employment in order to create sustainable skilled jobs, as has been done in the KATA programme.
- Private sector demand is integral to the success of workforce development. The KATA programme has formed local business councils in each geographic target area to focus on priorities and strategies to develop a workforce that meets market demands. In addition, the programme has sought to promote micro, small and medium enterprise growth, establish market linkages among local and international enterprises, and facilitate access to capital through information provision and sensitisation.
- The prospective role of the private sector to create long-term jobs must be reflected up front in programme design and analysis, outreach to private business firms and adequate staffing requirements to develop and maintain relationships with the private sector.
- Donors need to recognise that shifting from public works employment to long-term private sector employment is not easy and cannot be achieved by programmes such as KATA in the absence of enabling macroeconomic factors and business opportunities external to the programme.

3. United Nations 'Three Track Approach' to Employment Generation

United Nations, 2009, 'United Nations Policy for Post-Conflict Employment Generation, Income Generation and Reintegration', United Nations, Geneva

[http://www.reliefweb.int/rw/lib.nsf/db900sid/ASAZ-7NZKM4/\\$file/UN_May2008.pdf?openelement](http://www.reliefweb.int/rw/lib.nsf/db900sid/ASAZ-7NZKM4/$file/UN_May2008.pdf?openelement)

This United Nations policy is based on the belief that generating employment is crucial to building peace in conflict-affected environments. The policy is the outcome of two years of research, analysis and engagement among agencies throughout the UN system. The policy proposes a 'three track approach' to employment generation in post-conflict environments. Programmes in each of these tracks should be undertaken simultaneously and as early as possible.

- Track A: Stabilising income generation and emergency employment
- Track B: Promoting employment opportunities at the local level, where reintegration ultimately takes place, and
- Track C: Supporting sustainable employment creation and decent work.

Track C is of particular relevance to this query. The promotion of sustainable employment creation and decent work is to be achieved through:

I. Support for employment policies and the creation of an enabling environment: Donors should assist national and local governments in setting policy priorities and developing new policies, ranging from support to macroeconomic and fiscal policies, to active labour market, labour law and investment policies, and to employment-generating sectoral policies.

- *Fiscal and monetary stabilisation* should be a priority in macroeconomic management. Employment growth through surges of aid can be sustained longer if fiscal spending, monetary and exchange rate policy are managed carefully.
- As stabilisation goals are achieved and the private sector recovers, macroeconomic policy should focus on employment creation both through *resource mobilisation and*

- efficient sectoral allocation of resources.* Donors should seek to actively promote or seek local suppliers for their programmes.
- The *public sector is often the employer of first resort* early in the post-conflict period. As the private sector recovers, direct employment or severance wages should be *combined with training and job search services*.
 - *Employment guarantee schemes* can be considered to provide a safety-net for people who are unable to find private sector employment, with particular attention to marginalised groups.
 - Fiscal policy in the early post-conflict period should support *labour-intensive public works* that employ large numbers of skilled and unskilled workers. The adoption of procurement guidelines, monitoring tools and contractor training programmes can render such employment sustainable by encouraging a shift from public sector participation to competitive bidding among private contractors. Decentralised public works programmes may be more effective if they can build on community-based investment already under way and can reach and employ conflict-affected groups in local communities.
 - The *agricultural sector should also be supported* as growth in this sector can promote employment growth in related sectors of the economy. In addition, sectoral programmes aimed at new agricultural products and increased productivity for existing agriculture can stem over-migration of conflict-affected groups into urban areas.
 - *Regulation of sectoral training and education* should be considered more of a priority. They can become the foundations for a modern job education and training system.

II. Private sector recovery and development programmes: The growth and efficiency of the private sector can be directly facilitated by programmes supporting the development of financial sector and business development services, the development of local suppliers, and access to new local and export markets.

- Value chain analysis contributes to private sector recovery by identifying market opportunities and missing inputs. In post-conflict environments, access to essential inputs is often limited. *Market development and value chain upgrading* involves making markets work better by expanding sales opportunities and by improving access to key inputs needed to add more value to existing products (such as food processing facilities).
- *Business development services* (BDS), such as advisory services, marketing training, information services technology development, and access to financial services, can make micro, small and medium enterprises more profitable by improving productivity and expanding market access.
- National policies for *inclusive financial sectors* should be supported, provided that communities and institutions have recovered sufficiently to support financial services. Microfinance and other financial services, such as recovery grants or loan-guarantee schemes, can contribute to the recovery of small and large businesses.
- *Cooperatives* may also be supported as a viable solution to employment generation and alternative protection and empowerment to conflict-affected groups.

III. Social dialogue and defining the rules of the game: Labour-related rules, standards and institutions that enhance employability, social protection and other aspects of labour administration should be developed through dialogue among business, labour and government and engagement with civil society groups.

- For such dialogue to be effective, the *capacity of all constituents needs to be developed*.
- *Obstacles to forming and doing business need to be eliminated* in order to enable private investment and entrepreneurship. This includes clarifying property rights, and simplifying and improving the transparency of tax and license systems.
- *Obstacles to the participation of marginalised groups also need to be eliminated*, for example restrictions on women's asset ownership rights.

United Nations, 2009, 'Post-Conflict Employment Creation, Income Generation and Reintegration: Operational Guidance Note', United Nations, Geneva

<http://www.undg.org/docs/10738/Item-3f---Operational-Guidance-Note---Post-Conflict-Employment-Creation,-Income-Generation-and-Reintegration.pdf>

This document provides additional elaboration and guidance for the implementation of the UN policy, discussed above. It stresses that the sustainability of employment (the aim of Track C) is promoted through coordinated social dialogue among key economic players to secure broad agreement on socially inclusive policies, legal and institutional reforms. Section 3.3.2. outlines how to design Track C programmes.

I. Support for employment policies and the creation of an enabling environment:

The UN can provide support in the following areas: physical and macroeconomic stability; access to credit and basic infrastructure; promotion of a functioning labour market underpinned by fair labour laws; as well as the design of laws and regulations that minimise investors' risk exposure, and reduce their cost of doing business. This can be achieved through:

- Integrating employment programmes in national and local strategic frameworks, e.g. PRSPs.
- Promoting sectoral approaches and policies that foster private-sector employment growth and cater to rural and urban areas.
- Promoting security and stability in order to minimise uncertainty and facilitate business activity and long term investment.
- Supporting judicial system capacity-building such that land and property rights can be enforced and commercial dispute-resolution mechanisms restored.
- Facilitating access to credit to stimulate business enterprise, including the creation of micro-credit institutions in parallel with national banking systems.
- Restoring basic infrastructure through labour-intensive methods as well as larger scale investments across sectors.
- Developing new labour laws that strike a balance between protecting the rights of workers and reducing barriers to job creation.
- Convening a consultative stakeholder review of existing rules and regulations on business set-up and operation, with the goal of eliminating undue transaction costs and strengthen institutional accountability so that laws can be enforced.
- Strengthening public financial management such that scarce resources are subject to adequate tracking and controls to meet high-priority needs.

II. Private sector recovery and development programmes:

The private sector includes formal and informal businesses. Private sector recovery and development require a wide range of activities including:

- Providing temporary incentives for reviving the existing private sector in the immediate post-conflict phase. Over time, such incentives should be replaced by business development services.
- Supporting business development services (BDS), which aim to assist micro, small and medium enterprises (MSMEs) improve their productivity and expand their market access. BDS can be delivered by a wide range of public and private participants including civil society organizations.
- Supporting market development, in particular expanding market opportunities and making markets more efficient through a reduction in transaction costs and the development of infrastructure and communication. The most commonly used tool for market expansion is value-chain upgrading that removes obstacles between business participants such as producers, processors, distributors, traders and regulatory and support institutions.
- Targeting financial services and credit through existing institutions. A guarantee scheme can contribute to restoring trust and can lend to sectors previously considered too risky by financial institutions.

III. Social dialogue and defining the rules of the game:

Labour market mechanisms and institutions contribute to a national consensus and set the 'rules of the game' for sustainable job creation and decent work. The UN can contribute to consensus building, ownership, sustainability and peacebuilding by:

- Supporting an inclusive dialogue and consensus building among employers, government, workers and civil society representatives on sustainable employment and decent work.
- Redeveloping labour administration for peacebuilding, in particular where deficiencies in prior labour laws may have contributed to the outbreak of conflict. Strengthening of labour administration should focus on at least two areas: (i) appropriateness/adequacy of existing regulations, and (ii) capacity and/or willingness to enforce these laws.
- Aligning skills training with existing and emerging market demands. This requires investment in domestic and external market trend assessments, as well as of local resources and labour skills to determine which training programmes will likely yield the highest placement rates.
- Helping to build the capacity of employers to expand and absorb more workers.
- Using procurement as much as possible as a strategy for employment generation by targeting the local private sector as the preferred source of procurement. This should be done incrementally starting with products that can easily be produced locally. If capacities are weak, training programmes should be geared towards improving them.

This guidance note also stresses the importance of targeting marginalised groups in employment generation strategies, in particular youth, women, and the disabled. In the case of youth, for example, the document states that evidence so far indicates that youth interventions have relied too heavily on building up skills instead of increasing youth job opportunities. Donors and UN agencies should target youth early on, followed by national policy initiatives that encourage employers to hire young workers through special internship provisions, and payroll or social security tax exemptions.

ILO, 2008, 'A Decent Work Approach to Post-Conflict Reconstruction and Development in Liberia', Background Paper for High-Level Forum, 'Working Out of Poverty:

A Decent Work Approach to Development and Growth in Africa', 8-9 September, Monrovia

http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/meetingdocument/wcms_098106.pdf

This paper evaluates the Liberian Employment Action Plan (LEAP), designed to address the country's decent work deficit. The Plan provides an inter-ministerial framework to facilitate policy coherence and consistency on employment issues and to promote employment across a broad range of sectors. This includes labour-based methods in road reconstruction and agriculture, upgrading the informal economy, reviewing labour legislation and strengthening social dialogue. The paper adopts as a reference point the UN's 'three-track approach' and finds similarities with the approach adopted by the Liberian government since 2006.

Post-conflict reforms must be carefully sequenced with attention to the impact of employment at every step. In the short-medium term, the public sector has to remain one of the key drivers of growth and large-scale employment. This is important when considering options for reforms of state-owned enterprises and opportunities for indirect employment creation through government subcontracting to the private sector and through local community-led projects.

The paper discusses ways in which Liberia has incorporated attention to both short- and long-term job creation:

- Adopting labour-intensive infrastructure programmes: these have created emergency jobs as well as many sustainable jobs. Labour-intensive techniques have been adopted

- alongside support to small enterprise and cooperative development and respect for core labour standards. Reliance on local materials and resources, as well as the benefits of the infrastructure itself, facilitate local growth and the potential for job creation.
- Promoting labour-intensive agricultural activities: the promotion of sustainable livelihoods in agriculture requires security of tenure such that smallholders can move beyond subsistence to profitability; and a transition from public sector production and marketing to private sector-led agriculture (based on smallholder production). Growth in the crop sector has to be based on increasing investments to boost productivity, remunerative employment and incomes through downstream value-added chains.
 - Upgrading the informal economy and small scale enterprise development: the government is committed to implementing programmes and policies that help improve productivity, working conditions and credit access in the informal sector. LEAP promotes skills training and the development of the informal economy, small enterprise and cooperatives.
 - Strengthening social partners and reforming labour laws: tripartite social dialogue between government, workers' and employers' organisations has allowed for civil society and private sector involvement in reform discussions and policy development in various sectors. This has also contributed to social healing processes, democratic accountability, consensus on 'rules of the game' and recognition of the importance of rule of law in employment and livelihoods. Social dialogue has been facilitated through the establishment of single representative agencies, i.e. the Liberia Chamber of Commerce, representing employers and the Liberia Labour Congress, representing labourers. The establishment of a 'National Cabinet-level Employment Council' and an 'expert-level, inter-ministerial and multi-stakeholder partner employment creation committee' (incorporating the private sector, employers, workers, NGOs and development partner representatives) has also recently been proposed during tripartite discussions.
 - Generating credible labour market information and analysis: the Liberian Ministry of Labour is mandated to provide detailed statistical information on the labour market in order to promote effective planning and decision making. However, much funding is needed in order for this task to be implemented.

4. Market Development and Value Chain Development

Gerstel, T. et al., 2006, 'Market Development in Crisis-Affected Environments: Emerging Lessons for Achieving Pro-Poor Economic Reconstruction' SEEP Network Market Development Working Group

<http://www.bdsknowledge.org/dyn/bds/docs/591/SEEP,%20Mkt%20Devt%20In%20Crisis-Affected%20Environ,%202007.pdf>

Market development, as defined by the SEEP Network, is 'a sub-field of enterprise and private sector development, in which development programmes seek to help small enterprises participate in, and benefit more from, the existing and potential markets in which they do business (including input and support markets as well as final markets) [...] The ultimate goal of market development programmes is to stimulate sustainable economic growth that reduces poverty — primarily by ensuring that small enterprise owners and their employees take part in the growth and reap high rewards' (p. 7). This paper profiles practitioner experience and innovations in market development for income generation and livelihood security in crisis and post-crisis settings, focusing on thirteen case studies in crisis-affected environments around the world. Market development programming seeks to understand market trends, the constraints that small enterprises face in achieving profitability (e.g. insufficient quantities to sell), and the potential opportunities that can counter these constraints. In so doing, such programming tends to be much more sustainable than traditional private-sector development programmes aimed at one-on-one training, grants, loans or other assistance. More specifically, market development programming has involved attention to:

- Market opportunities: helping small enterprises take advantage of specific market opportunities, usually by linking them with 'value chains' that involve a range of suppliers, service providers, and buyers who do business together to reach viable markets.
- Market linkages: helping small enterprises enter and improve relationships with buyers and sellers; and strengthening business associations, through which small enterprises can pool and jointly market their products and share information.
- Support services: identify the skills-building and operational business service needs of various businesses in the market and ensuring that the private sector supplies them.
- The business-enabling environment: demonstrating how international, national, and local policies affect the market, especially small enterprises, and how businesses can be supported to influence this environment.

Key lessons and recommendations in market development include:

- Engaging in market development almost immediately after a crisis.
- Adjusting donor funding cycles to integrate relief and development goals.
- Tailoring programme activity to the nature and extent of the particular market disruption. This facilitates longer-term development and benefits for a larger number of small enterprises.
- Engaging in proper feasibility studies of target enterprises and properly sensitising enterprises to the goals and objectives of grant programmes.
- Understanding the political economy of markets in order to ensure that market development programmes do not inadvertently exacerbate inequality, vulnerability, and conflict.
- Building capacity of staff of implementing agencies and effectively adapting market development tools to post-crisis settings.

Parker, J. C., 2008, 'A Synthesis of Practical Lessons from Value Chain Projects in Conflict-Affected Environments', microReport no. 105, USAID, Washington, DC
http://www.microlinks.org/ev_en.php?ID=24911_201&ID2=DO_TOPIC

This paper discusses lessons learned and best practice drawn from projects that used value chain programming in conflict-affected contexts. Value chain programming involves 'linking poor producers to other private-sector actors who have access to growing markets and who have a clear business interest in partnering with poorer producers as part of their supply system. The value chain—so named because of the flow of product from early stages through higher value-adding stages until it reaches the ultimate consumer—focuses on upgrading the products and processes used by the various participants within the chain so that the entire group of actors can compete successfully in profitable markets' (p. 1). Despite the many challenges faced by these programmes, the case studies indicate that the value chain approach can produce significant economic benefits in conflict-affected environments, in terms of employment, sales and private sector investment. This has been the case particularly in programmes in Kosovo (dairy industry) and Rwanda (eco-tourism and coffee industry).

The paper outlines several lessons that it considers integral to the success of programmes in generating employment and raising incomes. These include:

- Investment in rebuilding inter-firm linkages and trust is essential but time-consuming. In conflict environments, vertical linkages (connecting the poor to markets) and horizontal linkages (connecting similar business) are often fragile or non-existent. The case studies showed that rebuilding linkages after conflict was an early requirement for value chain success. This in turn was dependent on the ability to establish trust between participants, such as through transparency and communication, and joint successes. These activities require time, financial and staff resources, however, and are usually underestimated at the outset of the programmes.

- Specific attention needs to be paid to the business enabling environment and the constraints relating to public infrastructure, particularly roads. However, few of the projects examined conducted a thorough analysis of the policy environment or helped value chain participants engage with relevant government officials, which is important to creating an enabling environment.
- Planning for the delivery of support services is an integral part of developing a successful value chain program. Financial, business and technical support services are often underdeveloped in conflict-affected contexts. Efforts must be made to provide for them as they are necessary in upgrading products or services to sell into target markets.
- The most powerful champions are often private-sector participants within the value chain itself. The case studies show that private-sector champions (e.g. end buyers, processors, or innovative or better resourced producers) are particularly important in a conflict-affected environment because they provide leadership for innovation and trust building. Private-sector champions are most effective when there is a transparent forum for them to share information with other value chain participants – i.e. an association of similar businesses or a network of businesses.
- A progressive model can provide early success that leads to larger results over time. One way to manage risk is to start a value chain programme by initially targeting easier-to-penetrate market segments and working up to higher-value markets. This can allow for iterative learning and greater ability to compete in higher-value markets.

Blum, R., 2008, 'Value Chain Tools for Market-Integrated Relief: Haiti's Construction Sector', microReport no. 93, USAID, Washington, DC

http://www.microlinks.org/ev02.php?ID=23118_201&ID2=DO_TOPIC

This case study on the USAID-funded, CHF-implemented KATA project profiles the use of the value chain approach to channel infrastructure programme design from a direct implementation approach toward longer-term, market-integrated relief in Haiti's most conflict-prone cities. Initially, KATA focused on activities geared toward short-term, labour-intensive job-creation. It has since sought to integrate large, more complex projects that require advanced skills and are geared toward long-term employment. This durable employment strategy adopts a value chain approach, designed to identify opportunities for competitiveness and growth. The strategy combines infrastructure and workforce development by connecting young people to construction and other key industries in Haiti with the greatest potential for generating long-term jobs. Local Business Councils composed of private firms and community leaders are relied upon to help match labour needs with available assets and private sector business growth strategies.

The study stresses the importance of maintaining and developing a skilled labour force in order to render local firms competitive and to stimulate broad-based growth. It advocates that workforce development initiatives (e.g. informal learning opportunities, formal training and accreditation, work-study programs and management exchanges) for project managers, specialists and labourers be incorporated into all infrastructure projects to stimulate industry competitiveness and sustained employment. These initiatives should be tied to private sector demand, assessed with the help of the Local Business Councils. In addition, where possible, the private sector should be relied upon to lead these initiatives. The study also stresses the importance of business associations in addressing quality and competitive issues, including in the case of the construction industry, building codes and standards, bonding requirements, financial reform, contract tendering and anti-trust enforcement.

5. Private sector development

De Vries, H. and Specker, L., 2009, Early Economic Recovery in Fragile States Priority Areas and Operational Challenges', Clingendael Institute, The Hague

<http://www.enterprise-development.org/download.aspx?id=1445>

This paper looks at how economic activities can contribute to the overall stability of fragile states. The chapter on private sector development stresses that a productive private sector has the potential to create jobs, stimulate the local economy, and build trust between potential business partners. Further, the private sector tends to recover faster than government in fragile contexts and could implement programmes where government capacity is lacking. There are typically two key types of private sector actors in fragile states: large enterprises (often multinationals) and a vast number of small local family- or individual-run businesses. The paper considers the lack of businesses in-between as a missed opportunity. Such businesses could creatively tap into the market for consumer goods for example by offering 'single-serving packaging' (e.g. for tea, shampoo etc.) as is done by some multinational companies. This has been popular as poor people with unpredictable income streams in fragile states often buy only what they need for the day. As these middle businesses are still absent, this chapter focuses on the local, smaller private sector.

The paper cautions that the 'private sector' in fragile states is defined much more broadly than in the West and incorporates the informal sector and 'any person who sells something aiming to make a profit' (p. 46). Given the difficulties in tracking these 'grey areas', private sector development in fragile states has not been researched extensively. The underdevelopment of the private sector has resulted in donors bypassing businesses in the implementation of reconstruction programmes and relying on international suppliers and NGOs. This, the paper argues is a missed growth opportunity for many small- and medium-enterprises. Further, the presence of a large range of NGOs with subsidies (e.g. for agricultural services and inputs) risks crowding out private sector involvement as the latter often cannot compete against the subsidies.

The paper provides the following recommendations for donors in fragile states:

- Allow the market to regulate, so long as this does not directly threaten social stability. Markets cannot be planned, but rather often develop themselves from a series of bottom-up local initiatives.
- Involve businesses in programme planning stages in order to ensure that donor interventions match private sector needs.
- Rely on local entrepreneurs as development partners where possible instead of international NGOs.
- Provide skills training, capacity building and access to capital to new and existing entrepreneurs.
- Consider financial subsidies for small- and medium-sized enterprises.
- Consider cash vouchers or other provision of resources for consumers to help them to purchase inputs and services.
- Consider starting a 'business incubator' (a central place for entrepreneurs to gather information and receive support to set up or continue with their businesses, to share costs of services and to lobby for reforms) to boost private sector competition.
- Invest in public-private partnerships and provide incentives for foreign companies to set up businesses beyond extractive industries. Incentives include setting up risk-coverage schemes and investment facilities (e.g. offering financial support to partnerships between donor country companies and local companies with the aim of transferring technology and knowledge, and positive spin-off effects for local economies).

Crane, K., 2009, 'Guidebook for Supporting Economic Development in Stability Operations', Rand Corporation, Santa Monica, CA
http://www.rand.org/pubs/technical_reports/2009/RAND_TR633.pdf

This guidebook is designed to help US Army personnel to provide more effective economic assistance in order to support economic and infrastructure development. Chapter 8 focuses on private sector development and employment generation. It notes that in post-conflict environments, government officials are often too stretched to engage single-handedly in making changes to regulatory systems or policies. It advocates for donors to assist by paying for technical assistance from lawyers or other professionals to help draft legislation or policies to simplify legal and regulatory systems governing commerce and consumer protection. New regulations and procedures should be designed in a way such that they can be implemented by governments with limited capacity. In addition, the new system should minimize the possibilities of corruption. The guidebook also advocates that donors and host governments involve local private entrepreneurs in their short-term humanitarian interventions (e.g. delivering food etc) and contract them to work in their short-term income and job creation programmes as a means of linking short-term interventions to the strengthening of private enterprises and local markets.

Grossman, H. et al., 2009, 'Sustainable Economic Development in Conflict-Affected Environments', GTZ, Eschborn
<http://www2.gtz.de/wbf/doc/en-SED-conflict-guidebook-2009.pdf>

This comprehensive Guidebook synthesises work aimed at improving economic development approaches in difficult conflict-affected environments. Chapter 4 on Management includes discussion on private sector development, skills development and employment promotion. Job creation links private sector development and skills development. Job creation measures may thus be incorporated in skills development interventions or integrated in private sector development. Young people are often the main target group for skills development and employment promotion. The guidebook finds that skills development (e.g. vocational and educational training (VET), accreditation and certification programmes, apprenticeships and enterprise-based training etc), and employment promotion projects can help conflict-affected societies to learn new livelihood skills, to work productively, and to move toward formal sector employment. Training can be modified and made mobile for post-conflict environments that lack suitable facilities. In such cases, a mobile training unit is used as a venue (e.g. a truck or a tent, which is moved to the next location after a course or training session has ended). Alternatively, mobile trainers can conduct training in multi-purpose facilities provided by the communities. Skills training can also be integrated in community development programmes.

One of the key challenges with training is linking newly developed skills with job placement. Job placement or employment services aim to link job seekers with employment opportunities. This may include the provision of labour market information services or direct interventions in which ex-trainees are systematically linked with potential employers. For people who are unable to find wage employment, efforts should be made to promote self-employment activities – for example integrating entrepreneurship in skills development in order to prepare trainees for different options. This often occurs alongside the provision of start-up capital in the form of small grants, and ongoing business development services, such as market information services, business plan development, business counselling and technical advisory services. In rural contexts, skills development interventions often include provision of seeds, livestock and tools for rehabilitation of agricultural activities, microfinance services, resumption of agriculture extension services, skills development in new farming methods and marketing techniques. In addition to addressing potential employees, skills development and job promotion measures should also seek to improve the productivity of enterprises by improving skills of their owners and employees, with the aim of increasing their competitiveness and the number of employment opportunities.

USAID, 2009, 'A Guide to Economic Growth in Post-Conflict Countries', Office of Economic Growth, USAID, Washington, DC
http://pdf.usaid.gov/pdf_docs/PNADO408.pdf

This guide brings together lessons learned from past and current efforts to promote economic growth in post-conflict countries. The chapter on employment generation is focused solely on short-term job creation; whereas the chapter on private-sector development links to long-term employment. It stresses that enterprise is the key to sustainable economic growth. The guide provides recommendations on how to create an environment that facilitates private-sector growth and how to strengthen enterprises such that they can compete effectively. These include:

- Restoring the business community's confidence, necessary to long-term growth and stability, requires a decline in risk perception by business owners and managers. To help restore confidence, donors should involve business communities in defining the reform agenda. They should avoid though reaching out only to the elite or to English speakers.
- Simplifying the regulatory framework and shifting from a government control model to a facilitative model will correct for past government rent-seeking from economic actors at the expense of promoting economic growth.
- Allowing for speedy preparation of necessary legislation but reassuring businesses that there will be time for amendments.
- Announcing changes to rules in advance in order to avoid surprises, the perception of uncertainty and a decline in confidence.
- Adopting a sector or sub-sector approach may be effective particularly in low-income countries where there may be high concentrations of activity in a few product areas.
- Developing public-private sector dialogue is essential to longer-term efforts to promote economic growth. One effective approach, used frequently by USAID, is to work with business associations.

Mac Sweeney, N., 2009, 'Building Better Working Relationships: Donor Coordination and Private Sector Engagement in Nepal', Draft Paper, University of Cambridge

This paper discusses the establishment and maintenance of good working relationships for private sector development in post-conflict contexts, focusing on the case of Nepal. It considers both relationships among donor organisations and between donors and the private sector. Donors can engage with the private sector indirectly by implementing projects focused on creating a business enabling environment or directly by consulting and working in partnership with the private sector to design and implement projects. The paper notes that in discussions with donors, it was found that the large number of different business associations in Nepal and the factionalism and fragmentation among them rendered consultative relationships difficult. In discussions with the private sector, it was found that there was a perception that donors preferred NGOs as implementation partners instead of local entrepreneurs. In addition, many local entrepreneurs were not aware that donors could provide assistance that went beyond grants and loans and included for example management training or access to legal or marketing expertise.

The paper makes the following preliminary recommendations for donor-private sector collaborations in Nepal (see pp. 28-29):

For donors

- 'Support the institutionalisation of formal dialogue forums
- Support the strengthening of existing business associations, through training or secretariat support
- Simplify the language in donor documents and streamline application processes

For the private sector

- Support the institutionalisation of formal dialogue forums

- Strengthen business associations in terms of human resources, and spread of representation
- Improve cooperation between business associations, to provide a more coherent voice for the private sector
- Promote greater transparency, corporate social responsibility, and better business practices’.

The paper also emphasises that the Government of Nepal has an important role to play in defining the environment in which donor-private sector relationships take place. It notes that the current instability of the Government makes it difficult for donors to confirm their overall strategies and budgets, and produces a tougher environment for business and enterprise.

6. Additional information

Author

This query response was prepared by **Huma Haider** huma@gdrc.org

Contributors

Francesca Battistin (ILO)
 Kenneth Beasley (USAID)
 Karry Byrne (International Rescue Committee UK)
 Duncan Campbell (ILO)
 Keith Crane (Rand Corporation)
 Maria Sabrina De Gobbi (ILO)
 Jean-Christophe Favre (SDC)
 Christian Fougner (NORAD)
 John Gorlorwulu (George Fox University)
 Rita Jupe (IFC)
 Seth Kaplan (Alpha International Consulting)
 Ann Lee (CHF International)
 Laura Meissner (The SEEP Network)
 Mary E. Morgan (Economic Development Consultant)
 Mary Porter Peschka (IFC)
 David Sogge, (Transnational Institute)
 Jim Tanburn (Donor Committee for Enterprise Development)
 Peter Tschumi (FDFA, Swiss Agency for Development and Cooperation)
 Jason Wolfe (USAID)

Websites visited

Centre for Governance and Development, CAN Analysis and Solutions, Donor Committee for Enterprise Development, FRIDE, Global Value Chains, GSDRC, GTZ, Google, IFC, ILO, International Alert, MicroLinks, ODI, OECD, Poverty Frontiers, Rand Corporation, Reliefweb, SEEP Network, World Bank, UNU, UN, USAID, USIP

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