

# **Economic Growth Programs in Post-Conflict Environments: Experiences, Lessons, and Recommendations**

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- “Practitioners should not assume that a standard value chain project will necessarily have a positive, peacebuilding impact; this type of outcome needs to be built into a project, and human and financial resources and the time needed to build relationships and trust allocated accordingly.”

– *Conflict Sensitive Approaches to Value Chain Development, USAID microREPORT #101*

# Today's Presentation

- ① Experiences
- ② Top 10 Lessons Learned
- ③ Recommendations for Programming

# ① EXPERIENCES

## Experiences

- “Today, the country known as Bosnia and Herzegovina...remains weighed down not just by a bloated bureaucracy, but also by a national brand inextricably linked with ethnic violence and an economy overly dependent on foreign aid.”
  - *Dan Bilefsky, “War's Lingering Scars Slow Bosnia's Economic Growth”  
International Herald Tribune, February 8, 2009*

# Experiences

- Bosnia case studies from the post-conflict Business Development Program (1996 – 2003)
  - BDP had two components
    - Business Finance (BF), a \$270 million SME credit facility
    - Business Consulting (BC), technical assistance to local enterprises

# Experiences

- Bosnia Case Study I: Eggs in the Republika Srpska
  - RS signed the Dayton consent accord in early 1998
  - The “reward” was \$10 million in previously withheld BF credits for SMEs
  - It was determined that egg production would be the favored sector for investment
    - A specialist consultant had determined that laying stocks had been decimated by war, all eggs were being imported, and the market price for eggs was twice what it should have been
    - These factors made business plans for egg production attractive
    - ...or did they?

# Experiences

- Bosnia Case Study I: Eggs in the Republika Srpska
  - What actually happened?
    - One year later, all the egg loans were unpaid
    - Many of the borrowers were bankrupt
  - Why?
    - What happens to prices when supply expands quickly but demand remains constant?
    - Egg prices collapsed
  - Market effects in the Do No Harm framework

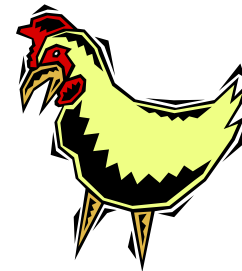


# Experiences

- **Bosnia Case Study 2: Mushrooms in the Federation**
  - In the early postwar scenario, food value chains are attractive
  - BF received a proposal for mushroom production, using an abandoned mineshaft, supplied by collecting the manure from local chicken farms
  - This would have been the sole fresh mushroom supplier in FBiH; demand made the business proposition appear sound
  - The bank took the production facility as collateral for a DM 500,000 loan

# Experiences

- Bosnia Case Study 2: Mushrooms in the Federation
  - What actually happened?
    - The loan went bad
    - The business owner disappeared with the money
    - Foreclosure was explored
  - The outcome
    - The bank was left with a mineshaft full of chicken manure in exchange for its DM 500,000



# Experiences

- Bosnia Case Study 3: Who got the loans?
  - BF structured its loan application process like that of a normal commercial bank
  - Borrowers had to put up real estate or hard assets for collateral
  - Who has collateral after a 5 year war in which over 100,000 were killed and most productive assets destroyed?
    - Warlords
    - The Mafia
    - The politically connected
  - Word on the street was that those who truly needed BF assistance could not get it, and money only went to those who had money already (distributional, substitution, legitimization effects)

# Experiences

- **Bosnia Case Study 4: Was the BDP Successful?**
  - In retrospect, how has it been reported?
    - “The BDP made a profound impact on the BH economy through the start-up of new companies, provision of jobs, and strengthening of the banking sector.” – USAID brochure
    - “Loans to restart businesses were...cornerstone activities in the early years” – USDoS Fact Sheet, U.S. Assistance to Bosnia and Herzegovina, Fiscal Years 1995-2005

## Experiences

- Bosnia Case Study 4: Was the BDP Successful?
  - By 1999, Business Finance’s loan portfolio was 75% non-performing
  - Eventually, 98 foreclosures were initiated and 75 court cases followed, including criminal cases
    - Example from USAID-IG’s report: “Bosnian officials admit embezzlement of \$700,000 by a director. However, no charges have been filed against this “politically connected” individual. “
  - BC’s technical resources, instead of helping improve enterprise performance, focused on loan recovery
  - BF’s loan program could not be turned over to the local banking sector after five years as originally contemplated
  - Most of the BF money benefitted one party to the conflict

# Experiences

- Kosovo-Macedonia trade facilitation
  - A positive experience
  - Macedonian businessmen felt that Kosovars were “lucky”
    - Because they had a war, followed by a flood of donor assistance
    - But Macedonian businessmen didn’t know how to access opportunities across the border
  - Kosovo Business Support facilitated a B2B roundtable and exhibition with Macedonian businessmen in Pristina
    - Coordinated with sister program in Macedonia
    - Transportation and a forum were provided
    - Businesspeople were free to make their own deals
    - Interethnic cooperation was fostered; trade deals resulted

# Experiences

- Housing and Office Space in Kosovo
  - This experience is not unique to Economic Growth programs
  - Immediately after the conflict there was a shortage of adequate housing and office space
    - Many expats housed in the Pristina Grand Hotel
    - Cash was demanded
    - The Grand Hotel had been seized by the KLA and used as a headquarters during the conflict , and was still controlled by the KLA
    - Cash from international assistance workers went straight into the hands of a party to the conflict

# Experiences

- Housing and Office Space in Kosovo
  - Good office space was also short
    - Many of those who controlled prime properties immediately after the conflict were warlords and mafia chieftains, the politically connected and the powerful
    - Properties had been seized from fleeing Serbs as Pristina became ethnically homogenized after the NATO military action
    - There was no “title” other than possession
    - Donors and NGOs competed for good space and ended up renting properties from parties to the conflict, giving them large amounts of cash up front
    - Legitimization effect



# Experiences

- Bosnia and Kosovo: some commonalities
  - One side to the conflict was clearly the “winner” of post-conflict economic assistance
    - Bosnia – the Bosniaks
    - Kosovo – the Kosovars
  - And as a corollary, one side was clearly the “loser”
    - In both cases, the Serbs
  - Conflict was exacerbated by economic assistance
    - Distributional effects in the Do No Harm framework

# Experiences

- Privatization in the Niger Delta
  - Eleme Petrochemicals, a Nigerian polymers manufacturer, was privatized in 2005
    - Although it was a prime facility with good market prospects, no major international players were interested
    - Security concern about Delta militants was the primary factor
  - An Indonesian/Indian firm purchased the facility with IFC backing
  - Executives of the firm were kidnapped
  - To safeguard the facility, 100 soldiers were “rented”
    - This legitimized corruption as well as raising operating costs
    - Conflict with the local community persists
      - “Winners” and “losers” from the privatization

# **② TOP 10 LESSONS LEARNED**

# Top 10 Lessons Learned

- ① Success stories are not the only ones that need to be told
  - The “focus on the positive” often precludes learning important lessons
  - Mistakes must be analyzed frankly (and without assigning blame) in order to improve future performance
  - Continuous improvement is an iterative process of identifying – and then eliminating – failure

# Top 10 Lessons Learned

## ② Think two steps ahead

- Post conflict environments are inherently dynamic
- Plans based only on today's facts on the ground have a high probability of failure
- Consider the “Law of Unintended Consequences”

## Top 10 Lessons Learned

- ③ Return on private sector investment is arithmetic
  - Required return reflects the investor's overall risk tolerance
  - Total return ( $R_{\Sigma}$ ) = Risk Free Return ( $R_1$ ) + Business Risk Premium ( $R_2$ ) + Country Risk Premium ( $R_3$ )
  - $R_3$  is extremely high in Eastern Sri Lanka's current environment due to lingering conflicts
  - Because of this, few, if any, business investment projects can return the necessary  $R_{\Sigma}$
  - $R_3$  must be reduced to attract investment (BEE not enough in absence of conflict resolution)
  - Diaspora is the best prospect

## Top 10 Lessons Learned

- ④ Money attracts participants like moths to a flame
  - The availability of grants or loans displaces the demand for technical assistance
    - Private sector beneficiaries will always say their biggest need is for cash
    - This is not always the case
    - Root causes of business problems are often overlooked

# Top 10 Lessons Learned

## ⑤ Cash is fungible

- Money from donor programs to the private sector has the potential of merely displacing money that would have been spent anyway
- This does not create any incremental value



## Top 10 Lessons Learned

- ⑥ Economic Growth has both “Top Down” (macro) and “Bottom Up” (micro) components
  - In post-conflict environments, it is more fruitful in terms of livelihoods to concentrate on bottom up approaches

## Top 10 Lessons Learned

- ⑦ The global business climate does matter
  - No situation, no matter how localized, is isolated from global economic forces
  - We are currently operating in the most difficult business climate in over 60 years

## Top 10 Lessons Learned

- ⑧ Economic Growth programs have the potential to exacerbate Dividers
  - EG programs deal with resource transfers
  - If actors are not properly considered (“to whom”), programming can create winners and losers

## Top 10 Lessons Learned

- ⑨ There are two classes of entrepreneurs in post-conflict environments
  - 1) The politically connected, who are seeking to take advantage of instability and changes in the power structure
  - 2) The true entrepreneurs, who have a product or service that meets a market need but seldom have connections or capital

## Top 10 Lessons Learned

- ⑩ Economic growth is a necessary, but insufficient, condition for post-conflict development
  - Conventional wisdom is that lack of economic opportunity is the primary cause of conflict
    - Following this logic, then, creating economic opportunity will solve conflict
  - Economic growth is critical, but must be accompanied by social and political solutions
    - Business environment reforms will not operate effectively where civil society is unstable

# **③ RECOMMENDATIONS FOR PROGRAMMING**

# Recommendations for Programming

- Emphasize implementation
  - Understanding conflict sensitivity is not enough
  - Bridge the gap between knowing and doing in your everyday activities
  - Work plans must be flexible enough to respond to the dynamics of the situation

## Recommendations for Programming

- Prioritize and simplify program components in conflict zones
  - Eliminate components that may be relevant in non-conflict environments, but impossible to implement due to lingering conflict
  - Check program work plan activities against conflict sensitive objectives



# Recommendations for Programming

- Use the right measures
  - Only things that are
    - Relevant to a conflict or post-conflict environment
    - Quantifiable
    - Measurable
    - Obtainable (i.e. you can actually get the data)
  - Measure impact, not activities
  - There may be no macro baseline in conflict and post-conflict situations, but there are always micro measures
  - Integrate measurement systems into everyday technical intervention processes
  - Pay attention to cause and effect

# Recommendations for Programming

- Reward systems must match objectives
  - For both sponsoring agency personnel and implementing partners/contractors
    - Conflict sensitivity may be preached but not rewarded
    - Conflict sensitivity has the potential for reducing economic outcomes, for example, by disallowing cooperation with politically connected partners with business power
    - If only economic gains are rewarded, conflict sensitivity could become a negative in performance reviews
    - Integrate conflict sensitive measures into performance monitoring and evaluation systems

## Recommendations for Programming

- Integrate “with whom” into partner and beneficiary vetting processes
  - Particularly for grants and PPPs
  - Recall the Bosnia experience
    - Requirements of participating in the program were structured to benefit those who did not need assistance
  - Strive to identify and assist the true entrepreneurs
  - Be aware of perceptions that the program only assists certain groups in a conflict situation

## **Recommendations for Programming**

- **Avoid darlings**
  - Do not pre-determine beneficiaries and program partners

# Recommendations for Programming

- Be scrupulously honest about results
  - With declaring success
  - With attribution of cause and effect
  - With recognizing failure as an opportunity to improve