

An Integrated Framework for Jobs in Fragile and Conflict Situations



Acknowledgment

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An Integrated Framework for Jobs in Fragile and Conflict Situations

Jobs are a high priority for development and stability in fragile and conflict-affected situations. Jobs play a very important role in fragile environments, given their contribution to poverty reduction; productivity and economic growth; and their effect on social cohesion and reducing the risk of violence. However, the jobs environment is particularly challenging in situations affected by fragility, conflict, and violence (FCV), with various combinations of high political, economic and social risks, weak institutional capacity, a difficult political economy, and significant constraints on financial resources to support recovery and reconstruction. Thus, fragile situations have an urgent need for well-structured assistance to address these challenges and create job opportunities.

To help strengthen its engagement on jobs in FCV, the World Bank Group (WBG) has developed an integrated jobs framework.¹ The purpose of this note is to describe the framework, which has been adapted from the WBG's general jobs framework to incorporate the above dimensions of fragility and instability, and to outline the policy and operational implications for both the short and long run. Ultimately, the aim is to improve the support the WBG can offer to expand job opportunities across the range of FCV contexts.

The integrated jobs framework has four policy implications:

- **Jobs can have important social externalities in FCV contexts, and integrated policy approaches are needed to help realize them.** The potential benefits on social cohesion and stability need to be factored into evaluations of the broader effectiveness of policy choices. The traditional siloed approach misses the potential for synergies across policies that can reinforce success.
- **Interventions at the level of economy-wide 'fundamentals' need a 'jobs and fragility lens'** to make visible how reforms impact the creation, quality and accessibility of jobs. Failing to take into account potential trade-offs will not avoid their impact; at issue is whether

policy choices are being informed by the potential trade-offs—and thus, whether or not supporting adjustments are made. Explicitly taking into account the expected impact on jobs is integral to expanding economic opportunities and promoting stability.

- **Short-term, targeted interventions need to be designed with an eye both on the nature of FCV challenges in the short run, and on longer term goals.** Progress on jobs in fragile situations is hard-won, and interventions with limited reach are crucial tools for emergency relief, stabilization, and starting momentum in private sector recovery. But they must be designed to facilitate, and not constrain, structural reforms and economic transformations. This is true for livelihood programs, as well as programs targeting investments in certain sectors, regions or firms.
- **The WBG needs to do more to re-establish domestic markets, address risks, and increase expected rates of return on private investments, including those of smaller domestic actors.** This will help to leverage additional resources and know-how to accelerate productivity and expand job opportunities. Targeted actions to support private sector jobs need not wait for investment climate reforms to take hold. However, they must guard against capture, and aim at investments that yield externalities, are potentially competitive, and are jobs-intensive.

The paper is organized as follows. Section A discusses why progress on jobs is a crucial development challenge for FCV, describes how fragility weakens the business and political environment for creating job opportunities, and argues that, while WBG engagement is critical, such support needs to be more effective. Section B develops a simple framework for structuring jobs programs in FCV. Section C discusses the operational implications across four major areas of engagement: reforms of the fundamentals, emergency and livelihood projects, private sector development, and support to the displaced and host communities, and Section D outlines next steps in the forward agenda.

A Jobs in fragile situations: Needs, challenges, and the case for WBG support

Progress on jobs is a crucial development challenge in fragile situations, but there are major obstacles to shared growth and job opportunities

Progress on jobs is particularly crucial in FCV. Jobs are consistently a priority for clients in FCV, as they are foremost on the mind of policy makers, and among the most urgent aspirations of citizens. As the WDR 2013 notes, “for policy makers . . . in countries affected by conflict, expanding job opportunities has urgency for social and political reasons, as well as for economic reasons” (140). This sense of urgency is borne out by the

WDR 2011 and 2013 key messages

Security WDR 2011

Investing in citizen security, justice, and jobs is essential to reducing violence. And when markets do not provide job opportunities, the likelihood of violence increases.

Jobs WDR 2013

Jobs are transformational—providing income, productivity, and social cohesion.

numbers, reflecting the pressure youth demographics exert on job creation in FCV. Thus, in Afghanistan, the projected annual increase in the labor force is 500,000 through 2020; and for South Sudan, the annual increase is 220,000, straining the capacity of these economies to ensure sustainable access to livelihoods to all new entrants.² And these statistics do not even reflect the needs of the underemployed and those out of the labor market. Box 1 discusses the importance of setting goals for jobs in FCV.

More, better, and inclusive jobs in FCV are necessary in achieving the twin goals. Good jobs are decisive in increasing household earnings and reducing poverty. This dynamic is particularly critical in FCV; if current dynamics persist, by 2030, 46% of the poor may live in the 35 countries the WBG currently considers to be fragile (World Bank, 2014). More and better jobs will also have profound implications for aggregate economic growth in situations of fragility and conflict, as well as for inequality. Indeed, economies grow as more people work, as each job becomes more productive, and as people move from lower to higher productivity

Box 1 Setting goals for jobs in fragile situations

As in non-fragile environments, FCV jobs programs aim to make available more, better, and inclusive jobs. However, in fragile situations, jobs can serve a range of more specific purposes that respond to each country's fragility and development challenges (WDR 2013). Thus, important goals to pursue with a jobs strategy include:

- Reintegrating ex-combatants and the displaced, reconnecting people's networks torn apart by conflict and violence, and giving everybody—women, men, excluded groups—a stake in society;
- Restoring livelihoods affected by conflict and violence, and jump-starting economic activity and domestic investment; and
- Building confidence in institutions and the social contract.

Depending on a country's circumstances, these goals may best be thought of as rebuilding social capital lost to conflict, or as generating social capital that was not previously available.

jobs. In those situations where incentives currently are distorted toward rent-seeking, the gains to be realized from shifting peoples' efforts toward more productive activities are all the greater.

Jobs in some situations can help promote stability and reduce the risk of conflict recurrence.³ Policy makers perceive a strong link between economic opportunity and stability: “conventional wisdom is that having a job is what matters for social cohesion” (WDR 2013: 140). Because jobs and shared opportunity are important to social cohesion, the need for short-run progress on the jobs agenda can be pressing—for instance, in meeting expectations of a peace dividend, or in staving off the immediate risk of social discontent that could fuel instability. Good jobs raise the opportunity cost of engaging in violence (Collier and Hoeffler, 1998), and are sources of social status and self-regard that can counteract anger and alienation (Cramer, 2010). Empirical work has shown that greater well-being is linked with less conflict and violence at the national (e.g., Miguel et al., 2004) and sub-national level (e.g., Berman and Couttenier, 2015). Limited experimental evidence also suggests that job opportunities can affect individual motivations to engage in violence and destabilizing activities.⁴ Economic opportunity may not help calm all kinds of conflict, however (Beath et al., 2016; Berman et al., 2011). In particular, there is support for the idea that “motivations for terror are unrelated to economic status or economic grievances” (Blattman and Ralston, 2015: 27f). The agenda discussed in this paper goes beyond ‘jobs for peace’, but this potential dynamic—even if the empirical evidence for it remains limited—does reinforce the importance of what is at stake in improving job opportunities in situations of fragility.

Situations of fragility, conflict, and violence are highly diverse. In terms of their income, FCV situations include countries with \$600 gross national income (GNI) per capita based on purchasing power parity (e.g., the Central African Republic), as well as Lebanon at \$17,590 (World Development Indicators, 2016). The differences are similarly large in other characteristics of the economies, such as the sectoral composition of output, the degree to which the private sector is formalized, and the skills of the work force. Countries facing fragility challenges include those that have just ended highly destructive civil wars, but also those that remain mired in low growth and low capacity, while enduring cycles of less intense violence. They encompass countries on very different trajectories: those well on the road toward stability, as well as those experiencing a gradual but worrisome erosion of social cohesion. The arguments developed in this framework also aim to be relevant to countries that are stable as a whole, but harbor regions of unrest, or are affected by conflict in neighboring countries. However, given this diversity of conditions, it is clear that the framework cannot address every individual situation, but rather will need to bring out how key dimensions of fragility and conflict affect the policy priorities and feasible options to address them. (Figure 1 provides a categorization of situations based on the level of FCV.)

Figure 1

| FCV Challenges | | |
|---|--------------------------------------|--|
| Immediate post-conflict | E.g., Iraq, [Syria, Yemen] | Active or recent open conflict |
| Deep fragility | E.g., Afghanistan, DRC, South Sudan | Very low capacity, high FCV risks. Potentially, continued violence |
| Transition | E.g., Bosnia-Herzegovina, Madagascar | Ongoing FCV risks, but on a trajectory toward stability |
| FCV risks (prevention) | E.g., Algeria, Egypt, Malawi | Higher level of stability, but with increasing FCV risks |
| Sub-national FCV | E.g., Nigeria, Pakistan | Stable countries with regions facing pronounced FCV challenges |
| Spillovers from conflict (e.g., displacement) | E.g., Jordan, Kenya, Lebanon | Stable countries affected by fragility among their neighbors |

Regardless of the country, fragility, conflict and violence can affect all levels of society—people and communities, firms and entrepreneurs, as well as institutions. Many times, the consequences are devastating and plain to see. War destroys lives, inflicts trauma, and rends the ties that bind communities; it wrecks machinery and roads, bridges, and markets, and breaks the networks of suppliers, customers and workers that businesses rely on. It also leaves institutions with little capacity and few resources to support economic recovery. Elsewhere, the impact across society is less obvious but still destructive: young people lack opportunities and lose their aspirations; businesses lose customers and struggle to overcome investor fears of conflict resurgence; and administrative offices are hamstrung by personal agendas and patronage. (Figure 2 lists the potential effects of FCV.)

From the point of view of workers, these impacts can mean reduced opportunities for wage and self-employment, and reduced human capital. As economic activity slows and firms struggle to grow, fewer jobs are likely to be created. The loss of assets or constrained access to credit reduces opportunities in self-employment or small-scale entrepreneurship. Higher unemployment, underemployment or inactivity rates can then gradually depreciate skills and reduce human capital—and depress aggregate demand. These effects can be compounded by fiscal and institutional constraints and loss of qualified personnel that affect the coverage and quality of education, training, and active labor market programs. Young

Figure 2

| | People and communities | Firms and entrepreneurs | Government and institutions |
|--|--|--|---|
| Potential effects of fragility, conflict, and violence | <ul style="list-style-type: none"> • Trauma, loss of trust in neighbors, institutions, future prospects • Loss of human capital—skills, health, drive • Loss of assets, social safety nets, and the ability to bear basic risks • Loss of information and connections to employers, colleagues | <ul style="list-style-type: none"> • Risk of violence and political risk • Corruption, uncertain regulatory environment • Low and uncertain domestic demand (private and public) • High operating cost—transport, power, credit • Loss of capital assets • Loss of business networks and information—employees, suppliers, customers, financiers • Elite capture in lucrative sectors | <ul style="list-style-type: none"> • Low capacity • Elite capture and rent-seeking • Macro-fiscal imbalances and burdens • Misallocation of resources |

workers looking to enter the labor market are particularly at risk of severe and lasting consequences.

From the private sector perspective, fragility results in a highly risky business environment shaped by pervasive market and government failures, which increases costs, reduces demand, and compromises the appropriability of investment returns due to policy uncertainty or corruption.⁵ High risk, high cost, and low and uncertain demand imply a substantially reduced rate of return on investment, and hence, lead to low overall investments and job creation. Indeed, it is not only foreign investors who are discouraged. While the private sector will continue to operate, investments in almost all sectors will decline and hiring will be put on hold; capital flight can become a major drain on resources (Collier, 2009).

Equally importantly, the sectoral composition of investment is changed in ways that pose challenges for jobs and shared growth. Elite capture can lead to high private returns at the expense of broader social benefits. The connected few can use their favored treatment and greater insulation from the risk of physical violence, macroeconomic risks, and poor infrastructure and services to raise prices or extract rents (Chekir and Diwan, 2014; Earle and Gehlbach, 2015). These benefits are greater in sectors with concentrated ownership and where rents are likely to be high, for instance mining, telecommunications, hotels, or select cash crops (Rijkers et al., 2014). The relative lack of job creation means the gap with the potential social return is all the greater, with the limited resources being tilted away from core labor-intensive sectors, notably non-commercial agriculture, as well as light manufacturing and services. This sectoral investment pattern may translate into GDP growth, but

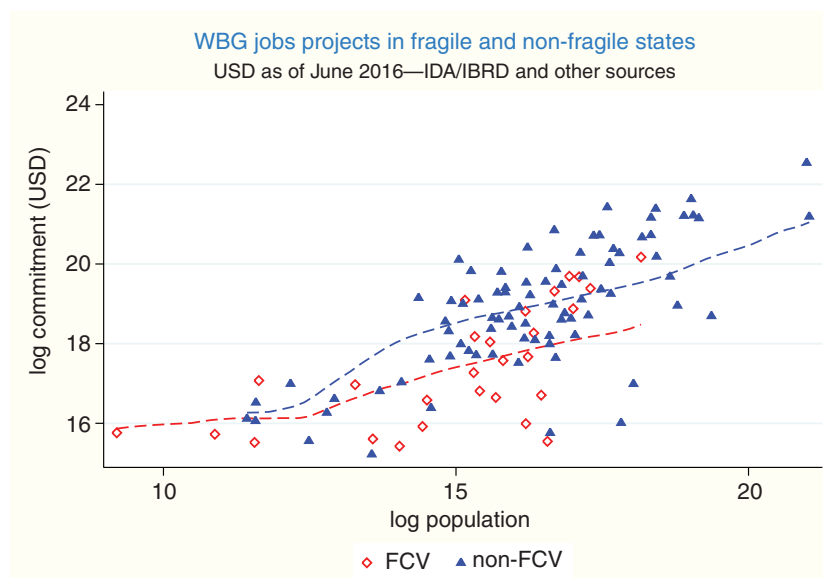
not into jobs and shared opportunity. In addition to sectoral imbalances, FCV can also distort spatial development: because insecurity imposes costs, businesses gravitate toward relatively safe areas—whether these are the main cities, or stable parts of the country.

Adverse dynamics can become self-sustaining, with a further reduction in job opportunities and an increased likelihood of more conflict. Distorted incentives and investment patterns misallocate production factors and leave a large pool of labor underutilized. In turn, this can lead to deeper entrenchment of patronage, elite capture, and inequality due to pervasive rent-seeking. The erosion of social cohesion due to underemployment and inequality, and depressed domestic demand due to low incomes is one channel through which fragility self-perpetuates. The ultimate consequence is that citizens of fragile states have less economic opportunity and, all too often, endure renewed conflict: post-conflict countries face a 40% probability of new strife within the first decade of peace (Collier et al., 2008).

The case for more effective WBG engagement on jobs is strong in FCV environments

Because of the factors discussed above, the WBG has an important role in promoting jobs in FCV environments. The social externalities of jobs creation in FCV lend urgency to the need for WBG support. At the same time, with private sector-generated employment hampered by pervasive market and governance failures, there is a stronger rationale for public policies and programs than in countries not affected by conflict. The WBG can support the design of these policies and programs through its analytical and technical assistance work, and their implementation through grant (IDA), lending (IBRD), and investment (IFC) operations.

It is important, however, to manage expectations and avoid unintended consequences. For instance, public works or training programs alone are unlikely to be sufficient to have a significant impact on inactivity, unemployment, or underemployment (Kluve et al., 2014). In addition, there is a risk that, rather than reaching the intended beneficiaries, these programs may benefit participants linked into patronage networks in low-capacity contexts, or well-connected formal sector workers in higher-capacity environments (Dudwick and Srinivasan, 2013). Similarly, interventions that target certain sectors or businesses must guard against capture and rent-seeking in a weak institutional environment. Policies that provide incentives for investments must avoid the concentration of capital in enclave activities with weak linkages to jobs. Finally, it is important to note that, while some states have emerged rapidly from conflict, building stability, resilience, and institutional capacity is more often than not a generational task, and progress can be exceptionally hard-won. Operational experience shows that even targeted jobs interventions with limited goals

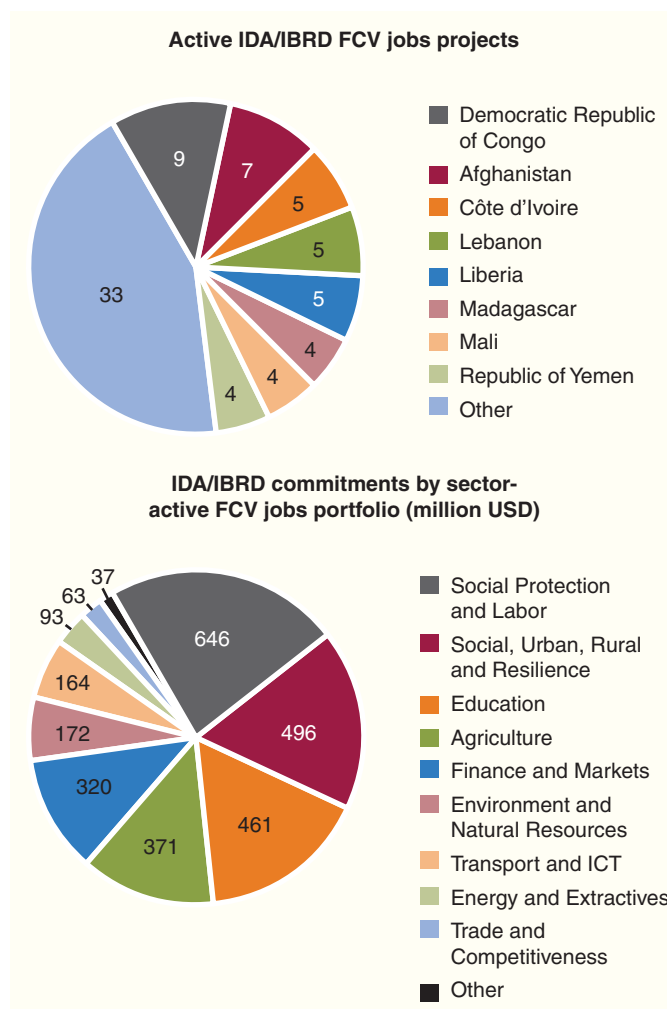
Figure 3

may deliver over the time frame of a decade, rather than over the project planning horizons more common in non-fragile environments (Rossignol and Salmon, 2016).

Going forward, it is necessary to increase the resources allocated to jobs interventions in fragile situations. Today, in most fragile and conflict-affected states (FCS), there is at least one jobs related project (see top panel in Figure 4). But even in those countries where there are jobs related operations, their size remains modest relative to the needs and relative to investments in non-conflict countries (Figure 3). The average jobs portfolio in FCS with a population of more than one million⁶ invests only half of what programs spend in non-fragile states per capita (\$9 as compared to \$22 p.c. in all countries with a jobs program; \$8 compared to \$16 p.c. in IDA countries).

It is also important to rethink the analytical framework guiding the WBG’s choice and design of new operations. In 2013, IEG reviewed the WBG’s engagement in FCS and concluded that operations had focused too heavily on investment climate reform, a “necessary but not sufficient condition for the growth of the private sector and of jobs” (IEG 2014: 78). It advocated for an integrated approach to support for jobs in fragility and conflict, and suggested that support to strategic sectors should take place on a greater scale to make a decisive difference, notably in infrastructure and small-scale agriculture. The review of the current portfolio of lending operations also shows that a large share of investments has focused on the supply side of the labor market (social protection and education) and that less has been done on the demand side (agriculture, trade and

Figure 4



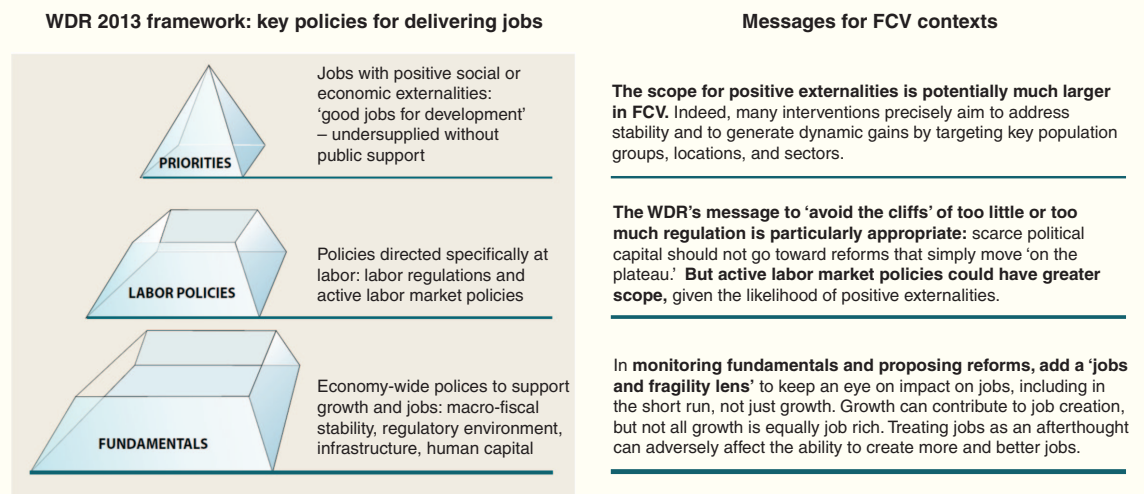
competitiveness, transport, finance and markets) (see bottom panel in Figure 4). As discussed above, this approach is unlikely to address the jobs challenges facing fragile situations on a sustainable basis.

B Rethinking the jobs framework in FCV

The Jobs World Development Report 2013 offers useful policy lessons for the FCV context. Its framework draws upon public economics to stress that jobs bring social and economic externalities, and that some jobs are better than others for development. The framework suggests that any jobs strategy needs to consider three types of interventions (Figure 5).

Figure 5

The Jobs World Development Report 2013 offers a useful starting point for thinking about a policy framework for jobs in FCS



First, 'fundamentals' or economy-wide policies that are necessary to promote investment, growth, and job creation. These are policies that ensure: macro-economic stability, good governance and the rule of law; business regulations that reduce transaction costs and promote competition and innovation; the development of appropriate infrastructure; and sufficient investment in human capital. The second set of policies—labor regulations and active labor market programs—aim to improve the functioning of labor markets by helping workers connect to jobs and by protecting workers from abuse, exploitation, or unhealthy working conditions. Finally, job strategies involve targeted interventions to address market and government failures at the local level and promote 'good jobs for development'. These could, for instance, be jobs that increase activity and employment rates for women, and empower them to serve as role models for the next generation and invest in their daughters' health and education. Or in the FCV context, they could be jobs that give opportunities to young men or other groups at risk of engaging in violence, and hence may reduce the risk of conflict recurring. The externalities related to these jobs are usually not taken into account by the private sector and therefore justify public interventions.

Three insights emerge when applying the general jobs framework to FCV contexts (Figure 5):

- 1. The fundamentals must be monitored and policy reforms designed and recommended with an eye on their impacts on jobs and on stability, including in the short run—what one might call a 'jobs and fragility lens.'** Too often, policy aims simply to reduce fiscal

imbalances, ensure macroeconomic stability, and promote investments and growth. The link between growth and jobs, however, is complex: growth can take place without creating many jobs, or while destroying jobs in certain sectors, or without creating the jobs necessary to improve living standards among vulnerable workers, or jobs that promote social cohesion. Adopting a ‘jobs and fragility lens’ may make explicit new trade-offs in policy making by highlighting the impact of fiscal or monetary reforms on employment. However, the trade-offs themselves are not new or created by this framework; it is just that a focus on jobs brings them out and includes them directly in weighing the choices—rather than implicitly giving jobs considerations a zero-weight. In any setting, it is important to be mindful of the effects of reforms on jobs; in fragile states it is essential, because jobs can be decisive for stability.

2. **Labor regulations are unlikely to be a priority in FCV countries, but active labor market programs might have a more important role to play.** As illustrated by the Arab Spring, there may be some middle income countries where labor regulations are seen as a central component of the call for reforms. However, it is not recommended to use scarce political capital to undertake reforms that simply move on a ‘plateau’ where labor regulations are neither too onerous nor too loose. On the other hand, a number of labor market problems that active labor market programs (ALMPs) can address are likely to be acute in some fragile situations: inadequate skills, insufficient information about job opportunities, and limited mobility. The scope for well-designed ALMPs could therefore be greater, particularly when targeted to vulnerable workers and given the humanitarian urgency that can be present in some conflict and post-conflict situations.
3. **Targeted public policies that promote job creation or increase the quality of jobs are likely to be more appropriate given more pervasive market failures, and the larger social externalities of jobs.** Social externalities are likely to be powerful, for instance, where jobs can help address the obstacles facing priority groups such as women at risk of being cut out of the labor market, ex-combatants and youth at risk of engaging in violence, or the forcibly displaced. At the same time, since value chains and sectors are more likely to be beset by market failure, public spending to open opportunities for private sector development will more often yield economic externalities, particularly if (as discussed in more detail below) designed taking potential government failures into account. The implication is that, while economy-wide reforms have a role to play, it is important to give attention to interventions aimed at improving job opportunities for specific populations, by promoting investments and growth in certain sub-sectors, value chains, or geographic regions.

The needs, opportunities, and obstacles that characterize fragile contexts can affect entry points for support on jobs, and often tilt

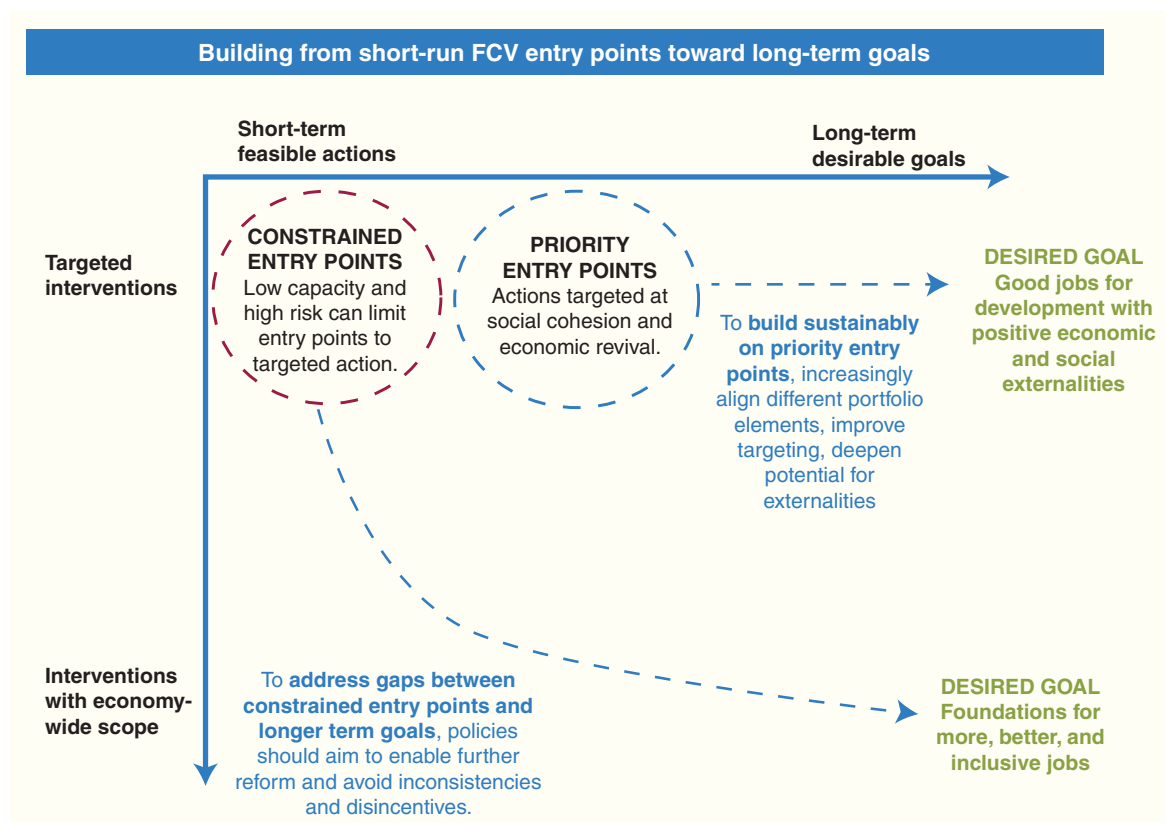
interventions toward targeted rather than economy-wide approaches.

The WDR differentiates between policies that are targeted and those that are economy-wide; targeted actions can directly support jobs that have positive externalities. This distinction is useful in thinking about jobs programs in FCV, where in the short run, there is a propensity to favor targeted approaches. As argued, this is in part because interventions to support good jobs for development make particular sense in situations of conflict and violence, given humanitarian needs, and given that economic and social externalities are likely to be greater. But targeted approaches may also be the only feasible ones. For instance, economy-wide investment climate reforms may be highly desirable in principle. But the very factors that make them important—weak governance and capacity—often also make it hard to achieve progress. Rather than wait for economy-wide reforms to take effect, the pragmatic approach is then to seek windows of opportunity to give targeted support. Similarly, targeting infrastructure, credit programs or regulatory reforms on a particular sub-population, sector or region will generally require less capacity and resources than rolling them out across the board. Hence, the degree of risk of renewed conflict, the level of capacity, the (re)construction needs, the prevalence of market failure, and the governance of the country can all affect feasible entry points and where, along the targeted spectrum across the economy, the chosen policies will be focused. (See Appendix Table 1 for further illustration.)

The risk inherent in targeted approaches for jobs in fragile situations is that short-run actions may be poorly aligned with long-term goals, and that different short-run actions may be poorly aligned with each other. While short-run entry points favor targeted approaches, there are two inherent risks to a portfolio that emphasizes targeted actions. The first concern is that short-term measures may become disconnected from longer-run goals, or even introduce distortions that exacerbate barriers to more sustained progress. For instance, beneficiaries of interventions can develop vested interests that block reforms that promise wider benefits: direct job creation for certain population groups (such as ex-combatants or youth) can reduce incentives to seek or create private sector jobs; and support to certain sectors or firms can become barriers to competition and innovation over the long run. Even humanitarian programs can create distortions that, for instance, impede the development of local food markets. The second concern is that synergies can be lost between different targeted actions. Interventions in many areas of development matter for jobs—from agriculture to macro-fiscal management, governance, private sector development, transport and power sector support, social protection measures, and beyond. However, teams pursuing relatively narrowly-focused interventions on different development issues may find it hard to coordinate with each other; if interventions targeting specific sub-populations or sectors are to be followed, it is still important that integrated approaches are followed.

It is crucial that short-run programs on jobs in FCV are designed with medium and long-run goals in mind, and take an integrated view

Figure 6



of actions across development issues. It is important that interventions that seize targeted short-run opportunities do not preclude more fundamental reforms over the medium and long term. What is needed and feasible in the immediate term may be far from the desired medium-term goal; policy makers should be explicit about the size of the gap and how policies should evolve over time to support broader development goals as the risks and costs of fragility decline. Second, interventions should be designed with a clear awareness of actions taken in other development areas to support jobs, and with an eye on seizing complementarities and avoiding contradictions between them (Figure 6).

C Operational implications

This section discusses the operational implications that flow from the framework developed above, across four key types of intervention:

(1) programs that strengthen economy-wide fundamentals, (2) emergency recovery and livelihoods programs, (3) support to the private sector, and (4) the crucial cross-cutting challenge of addressing the jobs angle

of forced displacement. The right combination of these operational elements, and the programmatic emphasis within each policy area, will vary among countries facing different sets of fragility and jobs challenges. For the sake of conciseness, this section limits itself to presenting general considerations, and giving examples of how interventions may be shaped by different contexts. Appendix Table 2 provides a more complete stylized overview of the relationship between different FCV challenges and programming choices.

Macro-fiscal environment, regulation, and other fundamentals: Apply a jobs and fragility lens, and strike the right level of ambition

Addressing key fundamentals is likely to be a prerequisite for other reforms to be successful, but perfection could very much be the enemy of the good. Reducing macro-fiscal instability can be critical, but should not be the only goal. The application of a jobs and fragility lens is important in making explicit the potential trade-offs in how much fiscal consolidation to seek in the short run, given the impacts on aggregate demand and employment. If capacity, resources, or governance is limited, reformers need to keep the appropriate level of ambition in mind in setting the policy environment that will shape the incentives and ability to invest and hire. Reforms should also aim to be inclusive, to remove—and not erect new—barriers to participation, by gender, ethnic or religious group, or location.

Macro-fiscal policy

Macro-fiscal policy, even when it addresses significant imbalances, has real implications for jobs, makes winners and losers, and can ultimately affect stability. Sensitivity to such potential effects—what one might call a ‘jobs and fragility lens’—must inform operations in FCV. In almost any country, the policy debate around significant monetary, fiscal or trade reform would include an analysis of the impact on employment. In FCV, these considerations are all the more important because jobs and opportunity matter for stability. Yet, they are all too easily neglected, given the often acute fiscal pressures. Macroeconomic stability is needed, and where a concern over jobs prompts changes in the path taken, there are costs, at least in the short run. But how stability is achieved has important implications for its sustainability and the distribution of economic opportunities. Failing to look at the employment impacts does not mean there will not be impacts, just that the choices are not being informed by them—and supporting adjustments may not be made.

With strong political pressures, limited resources, and low capacity in many situations of fragility, macro-fiscal policy will as a rule be far from perfect, but WBG operations can help guard against costly mistakes that impact on economic opportunity, jobs, and stability. Some of the most consequential misalignments include currency overvaluation,

overprotection in non-traded input sectors, or poorly targeted trade restrictions. In public expenditure, a particular danger lies in rash reforms of the entities involved in providing security. Another trap is to fail to recognize that with fragility and violence, volatility is the norm. The WBG should track foreseeable sources of shocks, and be positioned to help not only in handling their fiscal and growth implications, but also their impact on jobs.

Taking jobs impacts into account may shift the trade-offs that will be made or the time frame of reforms. For instance, public expenditure reform may be a necessity. But it requires sensitivity to the reality that, while public employment (and employment in state-owned enterprises—SOEs) can sometimes stress budgets, reinforce patronage systems, and distort incentives to enter the private sector, it can also promote stability, build skills, and provide important services. It may be desirable to pursue a path that brings reform at a steadier pace and preserves job opportunities. In settings where there is an acute risk of conflict and low capacity, a more achievable goal may be to nudge public employment toward services that promote productivity and human capital, or at least to move it away from overtly oppressive or rent-seeking purposes. Where there is more stability and higher capacity, governments can offer retraining or early retirement programs, as one would in non-fragile countries, but it must be recognized that additional resources may be needed to transition those on the public payroll into private employment without endangering stability, particularly in the case of SOEs affiliated with the military. More broadly, when jobs and stability are taken into account, the path for fiscal adjustment might call for a more gradual reduction in primary deficits and a larger role for external debt.

Where the economy-wide reform agenda is stalled, a jobs lens can help to clarify the trade-offs inherent in inaction. In some countries, despite the clear interest in job creation, the challenge is to

Box 2 Avoiding the ‘resource curse’ through a focus on jobs-intensive growth

The importance of adopting a broader ‘jobs lens’ in macro-fiscal policy is evident in the experience of resource-rich countries that have avoided the ‘resource curse’ and successfully embarked on industrialization, such as Chile, Indonesia, Malaysia, Sri Lanka, and Thailand (Coxhead 2007). In Indonesia, resource revenue was used to support the agricultural sector and reduce costs in the industrial sector. Fiscal spending of revenue from oil and gas was used strategically to increase productivity of capital in non-rent sectors, lowering

the cost of education, irrigation, fertilizer, and infrastructure. This supported livelihoods and food security in agriculture, while increasing the productivity of labor intensive industries, ultimately creating jobs. Measures for containing cost also spanned well-calibrated macro-economic policies, and overall policies supportive of the business environment. Overall, exploitation of natural resources was instrumental in supporting high levels of savings and investment.

initiate action on severe and deeply entrenched constraints on shared growth. Such policies—for instance, stringent trade restrictions—exist for a reason: they are often pivotal to short-term stability or may reflect entrenched special interests that have built up considerable economic and political power over time. Rapid progress in changing the social bargain they embody may be rare. Nonetheless, the WBG can provide a service in offering a candid analysis of the cost for jobs and livelihoods (and ultimately, longer-term stability) inherent in maintaining the status quo, rather than trying to solve the political stalemate.

Business regulations

A jobs and fragility lens is equally important when assessing business regulation reforms and enforcement. Certain regulations are really important for encouraging private sector investment and hiring, and for helping to provide needed property rights and dispute resolution mechanisms, as well as basic safeguards for the public interest. But more sophisticated reforms can often wait; political capital and institutional capacity can be better used on other areas in the short run.

Beyond what is on the books, how governments enforce regulations also has impacts on job opportunities. As a stylized fact, enforcement is weak in many low-income fragile situations; the informal sector plays a very large role in providing livelihoods. This shifts the trade-offs in regulation. For instance, over the short term, governments might try to broaden regulatory enforcement as a way of expanding the number of firms that need to pay taxes. However, this can stifle informal activity that is essential to livelihoods or backfire by encouraging more firms to evade the authorities, creating further distortions. A more appropriate approach may be to reduce the cost—and increase the benefits—of formality by reviewing which regulations can be relaxed and more gradually building up the tax base. The general rule should be to aim for simplification of regulations, avoid their use in cordoning off high-quality jobs for favored groups or codifying rents (including by ensuring transparency in financial markets by meeting AML/CFT standards⁷), and encourage entry, open access and competition. In the meantime, as a careful reform agenda proceeds, informal businesses deserve support to raise their productivity.

Regulations and government programs that, on the surface, appear neutral across population groups, should still be evaluated on whether the effects will be neutral in practice. This can be true for women, particularly where safety concerns and mobility restrictions may disproportionately limit their ability to travel to government offices for permits or licenses or to seek protection of property rights. The allocation of property itself will affect how regulations protecting it will distribute opportunities. Those agencies or individuals enforcing regulations or selecting beneficiaries for government programs need to be aware that differences in the underlying constraints people may face can lead to non-inclusive

outcomes, unless regulatory and program design takes these deeper constraints into account.

The end of conflict can sometimes be a moment of opportunity for progress on priority regulatory issues that can impose severe limits on growth and be causes of conflict themselves. These issues notably include land rights, resource revenue management, and energy sector reform. The end of conflict and other sharp changes in the fragility environment can present an opportunity to tackle them. While capacity may be low, willingness to tackle deeply entrenched regulatory problems may be greater at a moment of change, in particular since meaningful progress in overcoming them holds the promise of delivering a real peace dividend (Collier, 2009).⁸

Infrastructure

In investments in infrastructure, as well, real trade-offs are inherent in how sectors and locations are prioritized. Investments can, at the extreme, focus strongly on infrastructure that supports capital-intensive industries that generate foreign exchange (for instance, power, railways or ports serving mining operations; or providing the infrastructure for a special zone that attracts capital-intensive manufacturing). On the other hand, it may be preferable to support network infrastructure that can sustain a wider set of activities, including targeting key value chain bottlenecks or jobs-intensive sectors, or broaden participation, e.g., by connecting secondary towns or facilitating the sharing of information through ICT.

Emergency response and livelihoods programs: Seek consistency of actions with long-term goals, and advance the knowledge base

The WBG has an established toolbox for emergency jobs and livelihoods interventions. The right mix and ambition of programs hinges upon country circumstances. Elements of effective support include:⁹

- Support to re-establish livelihoods not just for short-run income but to expand productivity and reduce vulnerability over time and to build up basic social safety net functions;
- Labor intensive public works programs to respond to the immediate need for employment, and provide improved infrastructure that itself will also support expanding job opportunities in the private sector; and
- Active labor market programs to connect people with jobs, delivered where possible by private sector providers.

The mode of engaging in these activities can itself make a critical contribution; social dialogue, community driven development and early engagement with the private sector reinforce broader development goals.

A key task is to advance practices that will use short-term targeted interventions to build long-term linkages, and avoid adverse effects. Programs need to be able to respond to the pressing short-term priorities

that are characteristic of fragile situations—supporting livelihoods, integrating groups at risk of engaging in violence, or fostering social cohesion. At the same time, it is important that short-term actions enable medium and long-term reforms (Figure 7 gives a stylized example). Country context will determine the ways in which longer-term goals can best be integrated. For instance, in middle-income countries with fragility risks, programs intended to maintain social cohesion in the short run can be designed with durable systems in mind; similarly, in countries hosting large displaced populations, the need to address the displacement crisis can be an opportunity to put in place systems that can sustainably serve host populations. In lower-capacity settings, such as in states in deep fragility, the gap between feasible programs to respond to short-term needs and sustainable systems can be much larger, and a sequence of follow-on interventions may be needed to bridge it.

There are key building blocks that need to be taken into account:

Building systems for identification, registration, and profiling. Emergency programs can be devised in a way that helps build systems to support the design of steady state social assistance and social insurance programs. In low-capacity contexts, this could mean fostering the capacity to conduct basic means testing, or expanding systems that can handle payments. In higher-capacity settings, important systems include identification and proper registries of the population of beneficiaries, and profiling systems that can then inform about the type of additional services that would be required to improve their earnings opportunities and connect them to wage or self-employment. At any level of capacity, these systems are also important to make sure that programs do not lead to renewed exclusion—for instance, by ensuring that participation of women in training and public works programs is safe and feasible.

Strategic choices around public works and services. Other than ensuring that these programs minimize distortions in private labor markets, it is important to prioritize investments and delivery modalities that can, indirectly, enable the creation of private sector jobs. For instance, public works that focus on basic infrastructure, irrigation, environmental services, or market spaces can help make self-employment more productive. In higher-capacity fragile situations, there is often considerable demand for social services that can be provided by social entrepreneurs and NGOs, and these can constitute a reliable source of jobs.

Explicit graduation strategies. Emergency interventions need to have as a medium-term objective strategies to ‘graduate’ beneficiaries by improving their job opportunities. In a low-capacity context, this could imply connecting interventions that provide cash or in-kind assistance with counseling, financial literacy programs and savings groups, as well as programs that build skills. In higher-capacity contexts, it might also involve interventions to improve incentives to search for and take jobs, provide information about opportunities for wage or self-employment, and help

individuals connect to these jobs. These programs, if well designed, can have an important role to play in integrating the displaced, returnees, or combatants into the labor force. It is important that these programs be gender informed to ensure they are inclusive. One particularly important dimension is to address potential gender sorting across sectors and occupations so that women can build their potential to work in higher-earning activities.

Improving service delivery through appropriate contracting and payments systems. Although ALMPs have an important role to play in FCV, institutional capacity and governance arrangements often pose challenges. Some programs in low capacity contexts rely entirely on NGOs for delivery to avoid government capacity constraints. Where this direction has been

Box 3 From emergency interventions toward lasting systems

Efforts are under way across many situations of conflict and violence to chart the path from emergency responses toward lasting systems and emulate best practice in a way that works in a low-income FCV setting. The Safety Nets Project in Mali illustrates this approach. The first stage of the project offered an emergency cash transfer program—but designed not as a temporary scheme, but as a long-term safety net program. A second stage broadens the focus toward increasing household productivity and resilience by offering labor-intensive public works to rebuild productive community assets (e.g., water pumps and irrigation canals), training and mentoring, as well as funding for small business initiatives. Importantly, the project seeks to build the recipient database compiled for the emergency cash transfer into a Social Registry—a national system to register poor households and individuals. The goal is to ensure that vulnerable households do not only benefit from a single intervention, but can access health and education services, as well as support for productive activities that will provide them the chance to make lasting improvements in their lives. The registry is designed not as a static database, but as an information system to allow government to keep track of delivery of a range of social policies, and allow for transparent resolution of grievances.

Evidence from impact evaluation on effective graduation strategies is beginning to

emerge. While no single evaluation can provide the answer, data points will keep being added, and begin to form a picture. One such data point comes from an impact evaluation of the Emergency Youth Employment and Skills Development project (PEJEDEC) in Cote d'Ivoire (Bertrand et al., 2016). A randomized sub-set of urban youths participating in a six-month temporary employment program in roads rehabilitation received (i) basic entrepreneurship training, or (ii) training in job search skills and wage employment opportunities to facilitate access to wage jobs. One year after the program concluded, positive impacts on earnings persisted, mostly driven by higher productivity in non-agricultural self-employment activities. Importantly, while job search training and self-employment training contributed to youths' skills, the sustained gains in earnings are mostly driven by youths who received complementary basic entrepreneurship training. The findings highlight that short-term interventions combined with graduation elements can facilitate transitions into more productive employment, in particular self-employment, after exit from the program. Additional work is needed to better understand potential trade-offs between maximizing short- and long-term benefits, including to find program modalities that are cost-effective.

taken, an essential element has been the building of government capacity to oversee delivery, such that government can take ownership, and services delivered can come to be seen as the beginning of a new positive social contract. Even in higher-capacity contexts, existing employment services or other ALMPs often fail to reach targeted population groups and are unable to deliver the types of services needed to connect individuals to jobs. Most programs are supply driven and disconnected from the needs of beneficiaries and prospective employers. A promising approach is to rely on private providers of services (NGOs or social enterprises) that are paid based on services delivery (e.g., training) or results (e.g., internships, apprenticeships, jobs).

FCV environments pose additional trade-offs and risks in targeting programs. The goal of reaching those most in need of support and most likely to benefit from interventions remains important. However, in some FCV settings—in particular when there is an acute risk of conflict or unrest—the most pressing priority in supporting the vulnerable may be to prevent the outbreak of violence. The best way to pursue this priority may then not be to target programs directly to the poorest. Rather, it may be to target opportunities toward those most at risk of committing violence—ex-combatants or restive young men—or toward population groups at risk of taking the lead in initiating unrest—for example, urban middle-class youths disaffected with their life prospects. These trade-offs are difficult, and the right balance will vary by context; but the trade-offs must be addressed head-on, and close monitoring is needed to track whether the targeting choices made are borne out by the evidence. Even where targeting objectives are clear, there are additional risks to be considered in an FCV environment: to avoid redoubling grievances, it is often crucial that programs not be seen as providing patronage to specific groups. Thus, targeting criteria will have to be chosen carefully, and the process for beneficiary selection must be transparent beyond reproach.

The way emergency and livelihoods programs are implemented matters in increasing their impact on social cohesion. In particular in fragile and conflict affected situations, community-driven development (CDD) is a mainstay among delivery approaches, because it holds the promise not only of ensuring that the projects that are selected generate broad benefits, but also of fostering social cohesion through joint decision making. If designed with the long run in mind, CDD programs can lay the foundations for government-led participatory planning, rather than stand apart as a permanent parallel process (World Bank, 2013b). In higher-capacity settings, social dialogue and public-private dialogue can play a similar role.

Emergency and livelihood interventions can be delivered in a way that builds bridges to private sector development. Support to re-establishing livelihoods can begin to build capacity among farmers and small entrepreneurs to raise productivity, particularly through capital inputs, training, and capacity building, alongside programs to forge links

Box 4 Agriculture recovery—connecting livelihood programs to markets and value chains

Livelihood programs are crucial to raising incomes and the well-being of households—particularly in the agriculture sector, which still supports 70% of the world’s rural poor (World Development Indicators, 2016). The initial recovery of agriculture often makes an essential early contribution in post-conflict settings; as outright violence recedes, people return to farms, land is planted again, and markets re-open. But a pivotal challenge has been to sustain growth and income generation beyond first gains, and bridge the gap between livelihood interventions and private sector development. In agriculture, this can involve connecting farmers to value chains, and enabling them to move from producing goods that are either consumed or only sold in small local markets to producing and processing goods with higher value added.

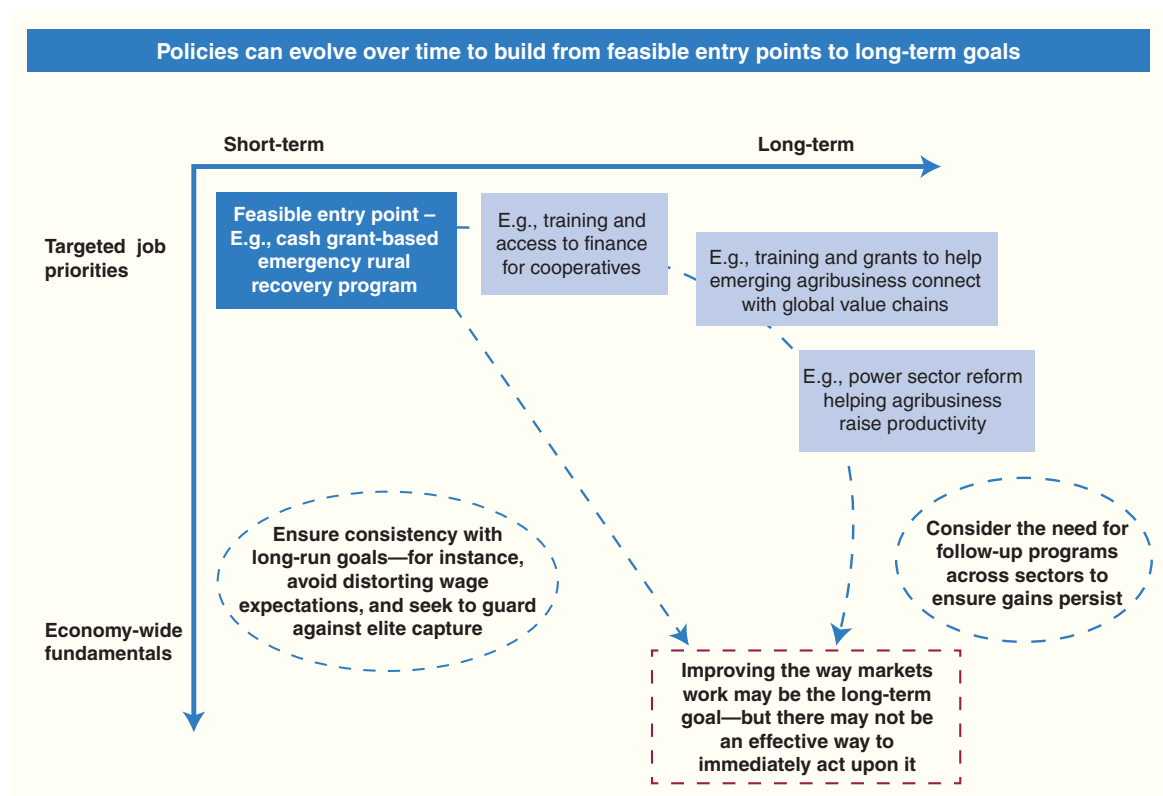
In Afghanistan, a successful approach has been to begin working on longer-term objectives alongside assistance to early recovery, facilitating learning about the challenges ahead and leverage points to address them. The experience also reinforces the need to keep inclusion goals in mind; the choice of crops and value chains to support have different potential for inclusive impacts, given gender and income sorting across activities. As recovery proceeds, it also becomes important to support diversification into off-farm, non-farm activities, both to provide new opportunities, and to allow for portfolios of activities that allow households to spread risk. Mobile phones can be a key enabler, and help replace missing or captured markets; rural communities need to be empowered with the skills to seize these opportunities.

with value chains. Public works can target projects that raise private sector productivity. There also are opportunities to engage domestic private firms in delivering training, job search assistance, or transfer programs where there is sufficient private sector capacity to deliver good services, thereby not only providing business opportunities, but also reducing the labor market segmentation and wage distortions that can result from the large presence of international agencies.

Private sector development: Engage early, seek leverage points for jobs-intensive action, and advance WBG products and practices to suit the needs of fragile contexts

Beyond basic investment climate reforms, jobs programs in FCV should make an early effort to revitalize the private sector through targeted support, where the potential for having a catalytic role is high. Early engagement is a crucial part of ensuring that short-term action is in line with long-run goals. This is also essential in order to leverage additional resources in a timely manner, to draw in private sector ideas and know-how, and to ensure that country programs develop the knowledge and capacity to lend effective support to the private sector as fragility risks recede. In addition, engaging businesses early can ensure that the private sector becomes a full stakeholder that constructively contributes to

Figure 7



shaping long-term solutions for peace and a more stable society. Targeted action provides possible entry points to revive markets without waiting for the economy-wide framework to be improved. Overcoming some of the constraints on businesses—for instance, political risk and the risk of conflict resurgence—may be a long-term task. But in the short run, targeted investments can help make a start in easing demand risk and the high cost of operations. The selection of such support needs to be informed by governance risks and the potential for these investments to have positive spillovers on other private sector investments and entrepreneurship. (Box 6 describes opportunities for private sector involvement in the earliest stages of post-conflict reconstruction.)

If entry points are for more targeted private sector support, while keeping in mind the longer-run goal of establishing a broad-based foundation for more and better jobs, activities should:

1. **Provide benefits for broader private sector development and expanded job opportunities**, while guarding against capture or unintended consequences for stability;
2. **Conduct delivery through an engagement mode that addresses the needs of investors**, both domestic and foreign;

3. **Be potentially competitive**, but presently subject to market, coordination, or governance failure;
4. **Be jobs-intensive** in themselves or through linkages along the value chain.

(1) Targeted interventions naturally risk creating distortions, and should be undertaken where they generate externalities and not simply benefits for the specific recipients. While there is no general answer as to ‘which investments work best’, the choice must be guided by the fundamental rationale for public investment in private sector support, namely, the opportunity to generate economic externalities that result from overcoming market and governance failure, and social externalities from good jobs for development. As argued above, both are expected to be more ubiquitous in FCV. Targeted support needs to guard against the real risk of creating enclave industries with few linkages—particularly as they can create special interests that block further reform efforts. Investments that yield network externalities, such as roads, ICT, and particularly power, present a clear case for public investment, and are also often attractive options for PPP that can help spur broader private sector development. Yet, beyond these traditional investments, programs can also seek to tackle pervasive coordination failures or first-mover concerns in developing a viable sector can help crowd-in additional investments and the entry of new enterprises.

(2) The needs of domestic as well as foreign investors need to be addressed. Foreign investment can be particularly attractive for bringing in additional resources to the country. They can also bring in new technologies and improved access to external markets. As foreign investors have choices as to where to locate, their investment in fragile situations may be dependent on risk sharing or subsidies. The selection of which investments to support needs to keep the balance of distortions and externalities in mind; playing a catalyzing role and developing linkages with local firms is important in ensuring that externalities get realized. In addition, the self-employed and local businesses in fragile situations also face profound demand risk, high transaction costs due to weak business networks and limited access to finance. There may therefore be important externalities to interventions that help make connections, build skills, or demonstrate ways to coordinate among smaller enterprises and not just to focus on large multinational investments. With limited access to finance, cash-flow bottlenecks deserve increasing attention alongside investment capital needs, particularly for local investors. Programs also need to look at collateral requirements at a time when property rights may be in dispute and to ensure access is inclusive, including for women who often face greater credit constraints. Among more well-established businesses, trade finance may have a useful role to play.

(3) Targeted entry points around value chains, sectors, or geographic regions can help limit the complexity of implementation, deliver results, and offer workable ways to guard against capture.

Programs that target particular sectors or value chains—often with a geographic focus, as well—can help limit political and operational complexities that might arise from broader interventions. These approaches can also mitigate some of the governance risks that could accompany targeting individual recipients with more limited linkages to the local economy. The greater focus on addressing coordination and information failures would have the aim of expanding participation in the sector or value chain, ensuring both more openness to opportunities and competition to encourage improved performance. Sectors such as agribusiness and agro-processing are likely to offer more pro-poor opportunities for a wider set of people in many fragile countries. The selection of particular sectors, value chains or locations should also be informed by their inclusivity, particularly if there are gender or ethnic gaps in participation. Entry points that seek to develop more inclusive sectors also offer a potential way to ‘graduate’ from interventions focused on livelihoods, providing support to expand entrepreneurship and hiring in enterprises rather than public works.

(4) Specific investments in private sector development should be jobs-intensive, but also reach significant scale. These goals are not easily achieved together, as capacity is low in the most labor-intensive sectors in fragile situations, so that interventions must often work intensely with individual program participants, and must be thoroughly prepared, often requiring a heavy investment in understanding markets, technologies, and political economy. Reaching scale will take patience and commitment. Conversely, while some easily scalable investments, notably in infrastructure, can target key bottlenecks and be jobs-intensive, it has proven very hard to generate significant jobs impacts in other sectors, notably the mining sector (IEG, 2013).

Approaches to supporting the private sector should address the nature of FCV constraints and catalyze private investment.¹⁰ Countries in conflict and fragility stand apart in the strain that significant (re)construction needs put on available public resources. Hence, there is a premium on catalyzing both foreign and domestic private investment. The sophistication of private sector firms determines the options for how this can be attempted. Where there is a real prospect of attracting foreign investment into a formalizing private sector, instruments can directly reduce the FCV risk premium, e.g., through MIGA guarantees or the crowd-in and signaling effect of IFC commitments. Similarly, for countries that have achieved a basic governance and investment climate capacity, even those fairly recently in conflict, a broad range of private sector projects can be an important part of developing the economy and creating good jobs. Besides agricultural value chain programs, important private sector projects could

Box 5 Building SME capacity in difficult FCV environments

Support to SME recovery in a shifting security environment: the Economic Revitalization project in Khyber Pakhtunkhwa and the Federally Administered Tribal Areas of Pakistan. The project successfully operated an SME matching grant program from 2011 to 2016, as the security environment improved in the wake of insurgency, violence, and displacement. Over five years, the program disbursed 1,471 matching grants to SMEs, totaling US\$12 million (about \$8,000 per grant on average). Grants have been given for a wide range of investments—including run-of-the-river micro hydropower for reliable electricity in remote areas. Funding has been accompanied by business training sessions for 800 entrepreneurs active in a range of industries from quarrying to silk weaving. The project records 5,628 jobs directly created at participating SMEs, and the estimated generation of an additional 10,000 indirect jobs.

Testing and scaling approaches to SME support: the Somalia Private Sector Development Reengagement Program. To deliver in Somaliland at a time when there was no recognized government counterpart, this Bank-executed

program worked with a range of private sector implementation partners. In the gum arabic and fisheries sectors, the project focused on addressing barriers to competitiveness identified in a value chain analysis. Training on better harvesting and processing techniques for gums, and support to business management and marketing allowed five gum and resin firms to connect to export markets. Training in fishing techniques, processing hygiene, and quality control helped double the number of active vessels in the port of Berbera to 197, employing 765 full-time fishermen, and led to growth in fish sales of 290 percent and ice production by 136 percent between 2012 and 2014. Over the same time period, the Somaliland Business Fund disbursed \$9.6m in matching grants to 174 MSMEs (an average grant size of about \$55,000), and leveraged nearly \$26m in private investment. Recipient firms were active in a broad range of sectors, from livestock and fisheries to alternative energy and manufacturing. After two years of operation, 1,862 jobs were reported to have been created, mostly for youth, and including one-third of jobs that employed women.

include private infrastructure, SME finance and equity programs, trade finance, retail value chains, manufacturing and services, and special economic zones. Developing these projects will require extensive advisory and due diligence work, and also require extensive work regarding corporate governance, environmental and social issues, integrity due diligence, and private company and government capacity building. By way of contrast, where the private sector is nascent, a patient process of nurturing can begin to tackle constraints and draw in domestic investment. The range of possible approaches is broad, from access to finance and matching grants to wage subsidies, market information, business advisory services, and beyond. Informal firms can show greater resilience in persisting through conflict and a greater ability to rebound; particularly in the early stages of supporting private sector recovery, it will be important to offer them support in raising productivity. This can call for creative interventions—for instance, the use of mobile money to help overcome problems of poor financial infrastructure. In principle, firm surveys can help identify constraints and direct the choice; but in FCV environments where there is an urgent need for action,

little data (in particular, on informal firms), and many layers of market and governance failure, modalities may have to be tried out, monitored, and refined. Finally, in any setting, the provision of public goods (power, roads, and ICT) can lower risk for private investors (and can in turn offer an entry point for public-private partnerships).

Given the risks attending private sector activity in fragility and conflict, the way the WBG conducts private sector operations is crucial in raising the prospects of success. A substantial presence on the ground is required to find openings to help effect change, and to conduct serious political economy analysis and screening of possible private sector partners to lower financial and reputational project risk that could otherwise be prohibitive. This is true in particular where the goal is to consider afresh what may be useful leverage points, and to avoid basing policies simply on the idea of taking the private sector back to the status quo ex ante. (Investment is often drawn back to pre-crisis economic patterns; fresh thinking can be particularly important—but also particularly difficult—where these patterns were exclusionary and played a role in fueling conflict.) By the same token, engagement must be patient, but incorporate short feedback loops and the flexibility to learn from failure and re-adjust. Entry points outside of some enclave investments may initially be small and require a patient effort to build to scale. Operational experience shows that reversals are common, and progress can be slow. Programs in the DRC, Madagascar, and Somalia have transitioned from phases of good performance to stagnation or reversals, and still ultimately borne fruit (Rossignol and Salmon, 2016; Speakman and Rysova, 2015).

Figure 8

| Private sector needs and potential entry points vary widely across FCS | | |
|--|--|--|
| Private sector stage | Nascent, often informal | Formalizing |
| Key need | Key need: encourage entry and achieve first gains in productivity | Key need: continue (re)building productivity, connect to global value chains |
| Potential entry points | <p>Linkages with livelihoods programs—e.g., A2F, cash transfers for entrepreneurship, and safety nets to help overcome the grave personal risks that are often involved in even small investments to move up the value chain.</p> <p>Value chain and sectors—skills training and matching grants programs, for instance, in simple processing and aggregation in agriculture.</p> <p>Local demand or fundamentals—e.g., infrastructure.</p> | <p>Sectors and value chains—investments to overcome coordination failure.</p> <p>Special economic zones.</p> <p>Fundamentals—power, macro-fiscal, and investment climate.</p> |
| FCS groups | E.g., countries in deep fragility | E.g., post-conflict IBRD countries |

Box 6 Post-conflict recovery is good business: Thinking about the private sector from ‘day one’

In post-conflict recovery, action is needed in the short run, but it will be more successful if it aims at longer-term objectives. Short-term programs for stabilization and growth may not lead to sustained productive employment creation and structural change in post-conflict situations, unless they are designed with those goals in mind. The evidence from previous recoveries shows that long-term recovery finds its seeds, or fails to find them, in short-term actions. Actions taken in the first few weeks post-conflict have a major impact on the overall recovery process (IEG 2006), so it is critical that longer-term development goals are reflected in the initial decisions about how to address the recovery process from day one.

For immediate post-conflict situations, the relief and initial reconstruction phase is an opportunity for increased employment, provided the need to foster a domestic private sector supply response is factored in from the beginning. From rubble clearing to restoring houses and basic services, there are important opportunities for the recovery of local business. This ‘reconstruction value chain’ can form the basis of a private sector strategy in immediate recovery, alongside finance to firms and cash for work around communities. Initial investments may hold high payoffs. With a large pool of inexpensive labor in need of mobilization, scarce capital, and extremely low domestic savings, priority should be given to short-term interventions that (i) ease constraints on the near-term supply response of domestic firms; (ii) facilitate domestic-led reconstruction (this should include support to

domestic procurement); or (iii) facilitate recovery of earnings and employment opportunities in labor-intensive sectors, including for excluded groups. In this way, short-term revitalization may ultimately generate self-sustaining private sector-led dynamics. Seizing this opportunity will require introducing development and employment lenses to reconstruction efforts as early as possible, and making sure that mechanisms employed in the humanitarian response facilitate (and do not suppress) the domestic supply response. It will also require a detailed understanding of reconstruction needs and the private sector’s ability to respond.

Information and clear implementation agreements are decisive in preparing for an effective response. Detailed strategies will be highly context-specific. Hence, it is fundamental to success to acquire early on baseline data and a granular understanding of the status of the real economy. Satellite images, remote surveys of firms and households, and assessments of procurement capacity may offer ways to answer questions that are critical to domestic procurement early on, even before peace is reached. For instance, they might reveal whether there are cement factories still functioning, and what bottlenecks they might face in responding to demand. An immediate clarification of institutional arrangements (‘the cooperative infrastructure’, borrowing the term from Mansuri and Rao (2013)) and donor coordination protocols for the early recovery will further help ensure a protracted emergency relief effort is not the only source of increased demand and supply in the immediate aftermath of conflict.

Supporting the forcibly displaced and host communities: A historic challenge of our time

Enabling the displaced to find productive livelihoods and providing opportunities for host communities are of the essence. Forced displacement poses a historic challenge that the international community is scrambling to meet. UNHCR reported that nearly 65 million people lived in forced displacement in 2015—the highest number since the aftermath of the Second World War (UNHCR, 2016). Beyond its immediate toll on the well-being of those fleeing their homes and communities, displacement is one of the most immediate ways in which fragility anywhere affects stable communities elsewhere. Host communities are concerned over the impact of forced migration on their own employment prospects—a concern that is always understandable and in some settings, justified.

The experience to date has yielded some key principles in addressing the jobs implications of forced displacement that inform the WBG’s response to the current crisis:

- **Aim for self-reliance of the displaced**, rather than a dependent life in camp settings;
- **Address jobs challenges for local populations in host communities too**, including both short-term opportunities and long-term development issues; and
- **Seek ways to provide public services to the displaced through host-country systems** (and to strengthen them).

Based on these insights, creative approaches are emerging to assist the displaced and host communities across countries in ways that respond to specific needs and opportunities. The scale and urgency of the challenge calls for boldness, creativity, and a relentless effort to analyze and learn. Government policies and attitudes are powerful forces in shaping possible assistance; but key policies—for instance, with regard to work permits—can also become a part of an assistance package that considers host community concerns as well as the interests of the displaced.

- **Shape interventions to respond to the way people move in fleeing conflict.** For instance, in Africa’s Great Lakes region, where displaced groups have remained away from their original homes for long periods, support targets work permits and access to land titles. Where people move frequently—either between their home communities and safe spaces, or between different host communities—it targets skills and tools that people can take with them. Support to displaced groups is combined with targeted public works programs and investments in private sector development intended to benefit both the displaced and their hosts, namely regional trade facilitation, infrastructure, small-scale agriculture productivity, and investment in human capital.

- **In designing interventions, seek to seize specific local entry points.**

For instance, the response to the Syrian refugee crisis in Jordan uses Special Economic Zones that seek to capitalize upon favorable access agreements to the EU market, the availability of fully-serviced industrial land, and entrepreneurial know-how. In Lebanon, support to Syrian refugees is being rolled out in conjunction with a strengthening of the host country's social safety net program.

Box 7 There is a clear knowledge generation agenda on how targeted short-term interventions in FCV can best deliver, and how they can support longer term dynamics

Given the importance of jobs in FCV and the accompanying challenges, this is an area where active learning is critical. Examples include:

(i) It is often argued that interventions can achieve a range of objectives, such as raise skills, generate income, connect participants to jobs, and build social cohesion, but evaluations rarely track a broad range of outcomes, or long-term outcomes. More rigorous impact evaluations might help build a clearer, realistic sense of what is feasible (e.g., Brück et al., 2016).

(ii) Long-term follow up on job impacts is still too rarely done in evaluations, and is hard to achieve in fragile situations—but the question of whether results can be sustained matters deeply in determining the development impact and cost-effectiveness of interventions.

(iii) While there is increasing evidence that cash transfers for entrepreneurship perform well as a short-term targeted intervention (e.g., Blattman et al., 2014), there is an opportunity to explore how they perform at scale, what their longer-term contribution might be, whether they help promote stability, and whether or not they are best complemented by skills training.

(iv) In programs that involve short-term capital injections and hence, local demand shocks, e.g., humanitarian cash transfers or DDR programs, it is worth asking whether they could link with support to local businesses to help seize opportunities arising from increased demand.

(v) Results-based projects for both livelihoods and private sector development that tie support to jobs outcomes (for instance, job placements after training, smallholder productivity increases, or hiring among grantee firms) hold promise where conventional projects have struggled in situations of fragility. More learning is needed on their impact, and on how they can deliver most effectively.

(vi) Great strides have been made in measuring the direct and indirect jobs impacts of interventions and investments, and capturing the productivity and earnings of jobs. What still remains challenging is capturing the magnitude of the 'social cohesion' or the social externalities of jobs on stability. Progress is needed to allow for better cost-efficiency analysis of jobs programs.

(vii) Data on informal firms is often much less readily available than for formal enterprises. In FCV, where informal businesses provide a large share of jobs—in particular during recovery—better data is needed to understand the challenges informal firms face, and to ensure that they are not invisible in policy design.

(viii) Finally, the scale and urgency of the forced displacement crisis puts a premium on identifying lessons for effective support to the displaced and host communities.

D The path ahead in strengthening the WBG's engagement on jobs in FCV

Since the IEG's 2013 evaluation of the WBG's work in Fragile and Conflict Affected Situations, the Bank has made progress in making more effective its support for jobs in countries facing fragility challenges. Yet, **stronger engagement on jobs in FCV is needed both in the WBG's analytical work and its country programs.** Box 8 discusses the question of whether this is likely to require additional resources, in both the short and longer run.

The following six points can form an agenda for action:

1. **Mainstream the application of a 'jobs and fragility lens'** throughout country strategies and the WBG portfolio in FCV situations. The Systematic Country Diagnostics and Country Partnership Frameworks offer important opportunities, particularly as they are required to discuss the nature of countries' FCV challenges—setting the stage for how they would then impact policy choices to expand job opportunities. Further elaboration of the guidelines provided in this framework may be needed in particular sectors to provide more specific assistance in identifying feasible entry points and in designing interventions, with due consideration of how they can evolve over time to close the gap between what is feasible in the short run and desirable in the medium run.
2. **Collect, mainstream, and implement operational lessons from the WBG's engagement, with particular emphasis on support to domestic private sector jobs and engagement in countries in deep fragility,** including lessons on how best to navigate sensitive political economy dynamics. The WBG's current engagement is too often ad hoc or simply opportunistic in approach, with one-off projects devised when there is an opening. As the framework is implemented, lessons from key engagements need to be made more readily available to teams, and pressure-tested and refined in the context of new operations.
3. **Take steps to respond to the operational difficulty of working on jobs in situations of fragility, conflict and violence.** This involves setting incentives, and providing resources for a patient and thorough engagement. Further analysis will need to pinpoint opportunities to innovate in instruments where needed (results-based approaches could hold particular potential), and to innovate on operational practices to allow for short feedback loops and flexibility in designing programs.
4. **Strengthen tools for data collection and the analysis of jobs challenges in FCV.** Data-intensive analysis of jobs challenges, including through jobs diagnostics, is advancing the WBG's ability to better support jobs. However, these tools must be adapted in order to contribute in FCV environments that tend to be data poor and face fragility challenges that are not easily approached in routinely collected data.
5. **Improve monitoring and evaluation tools and results frameworks that capture both jobs and the impact of FCV.** This will improve

the ability to learn about what works in operation, even where rigorous randomized controlled trials are not feasible.

6. **Continue building the experimental evidence base on the effectiveness and impact of interventions, programs and policies.** Experimental evidence has added greatly to what is known about the merits of different interventions. This agenda should be expanded to cover issues of performance at scale, complementarity among different interventions, effective modalities, long-term effects, and effects on stability alongside economic outcomes.

Box 8 Does integrating a jobs and FCV lens require more resources?

In FCV, adding a jobs lens may require greater short-run investments, but with greater potential for longer-run savings.

The context and nature of the jobs challenges will affect the answer in any given situation, but there are a number of factors that can be identified. The best approach would likely frontload the need for resources, both in terms of public resources/aid for the country, as well as in overhead costs of designing and implementing the interventions. But if successful, the approach should lower the resources needed overall. The resource-related factors are:

- Adding a jobs lens to macroeconomic policy choices could imply additional resources if additional stimulus spending is needed.
- Costs will rise if livelihoods or public works programs are to be more than cash transfer programs that improve beneficiaries' employability by providing useful work experience and/or training.
- Support to the private sector (including local and international investors), through addressing risks and high costs of finance, would take additional resources.
- Relying more on the local private sector to meet (re)construction needs can be a way of spurring on greater local investments, and may take more resources if local costs are higher (although improving economies of scale may offset this).
- Public investments, including those needed to complement private investment, such as

network infrastructure, would certainly take more resources upfront, but if chosen to support a large number of potential beneficiaries, could significantly help spur private sector development

However, by adding the jobs lens, these efforts should be targeting externalities, crowding in private investment, and accelerating broader private sector activities and hiring, thus lowering the overall amount of resources needed to put the country on a sustainable path. To the extent that expanding economic opportunities reinforces a virtuous cycle of reducing the risk of further conflict and broadening the revenue base, the benefits could be substantial indeed.

It should be expected that implementing a jobs lens is more resource-intensive in situations of conflict and fragility.

It must also be recognized that the costs of engaging will be higher. This is likely to be true for any project, but it could have particular consequences for engagement with the private sector. Investments in many FCV contexts may also be smaller, and this compounds the challenge of higher fixed costs for investment preparation, and it is not realistic to require an even higher return to cover these costs in a context where business success is that much harder to achieve. The need for patience, acceptance of higher rates of failure, and some cross-subsidizing of overhead costs must be recognized in choosing the appropriate level of resources to allocate.

Appendix Table 1 How does fragility shape feasible entry points for interventions on jobs?

| | |
|---|---|
| Risk of violence and conflict | <p>Counteracting the risk of conflict recurrence is an overriding priority. Consider potential impacts on jobs and stability of macro-fiscal policy. Where possible, target opportunities to individuals and groups at risk of engaging in violence.</p> <p>Risk depresses investment. Look for mitigation measures, and support investments that catalyze other investments.</p> |
| Weak governance | Limited political capital for reforms (and the risk of destabilization) constrains what can be tackled and calls for a selective focus on high-impact reforms and on avoiding elite capture. |
| Low institutional capacity | Favor reforms, programs, and public investments that are simple and can realistically be implemented. Focusing support in limited sectors or regions can help manage operational complexity. |
| Limited revenue relative to (recovery) needs | Limited resources for programs constrain public investments and scope of programs. Regulatory reforms may be more feasible (but may be constrained by governance and institutional capacity). Programs and public investments may need to be rolled out across locations and sectors over time. |
| Limited / disrupted markets | Addressing key market failures may require more targeted approaches, e.g., to build capacity, demonstrate feasibility or make information available. |

Appendix Table 2 How policy priorities can vary by the nature of FCV challenges

| FCV challenge | Country examples | Key goals | Policy priorities | | |
|---|--------------------------------|--|---|--|--|
| | | | Macro/economy-wide | Emergency and livelihoods | Private sector development |
| Immediate post-conflict | Iraq, [Syria, Yemen] | Stabilize, reconstruct | Carefully watch jobs and fragility impacts of macro stabilization and public spending review; seek 'peace dividend' on key regulation; rebuild infrastructure | Emergency measures to ensure sufficient consumption levels (targeted toward at risk populations) | Involve private sector in reconstruction as much as possible |
| Deep fragility | Afghanistan, DRC, South Sudan | Avoid recurrence, build capacity, build livelihoods | Regulations that avoid deeper capture, allow some competition; meet the most pressing infrastructure needs | Target support toward at risk populations; livelihood programs to raise productivity in agriculture (and other key labor-intensive sectors) | Begin building capacity in agribusiness and other labor intensive sectors; focus on governance issues and avoid elite capture |
| Transition | Bosnia-Herzegovina, Madagascar | Support shared growth and structural transformation | More attention to investment climate; access to finance on sustainable terms; broaden network infrastructure | Ensure programs include skills development and help individuals improve future employability; transition toward sustainable safety net systems | Build capacity to connect to global value chains; broaden opportunities for wider set of enterprises (support entry, competition); look to expand regional trade |
| FCV risks (prevention) | Egypt, Guinea, Malawi | Avoid destabilization, broaden opportunities | Policies to promote growth; ensure tax, regulation, and public investments support jobs rich growth; avoid austerity that cuts back employment | Review targeting of support; pursue skills and work experience to avoid exclusion of youth | Address vested interests; build capacity; broaden access to opportunities for wider set of enterprises |
| Sub-national FCV | Nigeria, Pakistan | Contain insecurity, broaden growth and inclusion | Public investments that improve economic linkages with sub-region; provide security to avoid spreading violence; support rule of law and institution building | Target support toward at risk populations; enable mobility for individuals to pursue opportunities | Build linkages across economy (e.g., network infrastructure) |
| Spillovers from conflict (e.g., displacement) | Jordan, Kenya, Lebanon | Avoid instability, achieve growth despite burdens, address inclusion | Public investments to absorb new migrants, aligned with development needs beyond those caused by spillovers; expand existing public services where possible | Target displaced individuals and host citizens that risk job or wage losses; aim to improve employability; design to take advantage of range of skills available | Support expansion of private sector to absorb new labor; expand access to credit; look to expand trade opportunities |

Appendix Table 3 Bridging feasible entry points and long-term goals: Examples across policy areas

| Policy area | Short-term FCV constraints and priorities and long-term goals | | | Policies to address short-term priorities—with the long-run in mind |
|-------------------------------|--|---|---|---|
| | Short-term constraints | Short-term opportunities | Long-term goals | |
| Macro-fiscal and fundamentals | Limited political capital and capacity for reforms; particular sensitivity to short-term jobs losses that may follow from reforms. | Public employment can support social cohesion and stability. Reform in priority sectors can yield a peace dividend (e.g., land rights, power sector, resource revenue management). | Sound macro-fiscal management, strong investment climate to facilitate domestic investment and attract foreign investment, reliable infrastructure. | Add a jobs and fragility lens to reforms, and set the right level of ambition—focus on avoiding costly mistakes, but seize possible opportunities for a peace dividend in priority sectors. |
| Emergency and livelihoods | Insufficient administrative capacity (and often, funds) to implement country-wide systems. | Support to vulnerable groups and groups at risk of engaging in violence contribute to social cohesion. Livelihood programs can lay foundations for private sector growth; visible public benefits may begin to re-establish a positive social contract. | Sustainable means-tested safety nets and programs to build human capital. | Provide targeted support to key groups and build capacity for private sector activity from the ground up. Put in place elements of delivery systems that can last, and follow up on livelihood interventions to start connecting to value chains. |
| Private-sector development | Low capacity among firms to connect to value chains; governance and political economy obstacles to reform. | Given pervasive market failures around sectors and value chains, targeted interventions can support PSD without distorting prices. | Functioning markets, ongoing programs focused on innovation, human capital, matching. | Provide support to sectors, value chains, or regions; to avoid adverse outcomes, focus on jobs-intensive investments, addressing clear market failures, and avoiding capture. |

Notes

1. The framework is part of the WBG's commitments under IDA 17 to "develop a more realistic medium to long-term framework for inclusive growth and jobs in FCS" that would move the WBG's perspective beyond fostering a better investment climate, and toward embracing a stronger focus on shared growth and economic opportunity.
2. Projections based on UN DESA Population Prospects.
3. For a full review, see Blattman and Ralston, 2015, on which this summary is based.
4. Perhaps most notably, a program combining capital, skills training, and counseling for former combatants in Liberia yielded better jobs and economic outcomes, alongside a lower willingness to consider illicit activities or work as mercenaries (Blattman and Annan, 2016). Recent evidence also suggests that public employment through India's NREGA program has weakened the link between poor economic outcomes and violence in the Naxalite insurgency (Fetzer, 2013).
5. See, for instance, Peschka et al., 2011.
6. When including countries with a population of less than a million, average spending is higher in FCS (\$49 compared to \$26). This is due to the higher share of very small states among FCS (20% as opposed to 10% among non-FCS), and convergence between FCS and non-FCS spending per capita in very small states.
7. Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).
8. Conversely, there is a need to guard against the risk of backsliding on key policies that can come with the end of conflict. For instance, traditional law can help cohesion in a society emerging from conflict, but may erode hard-won gains on women's rights.
9. More broadly, a rich range of human development interventions can halt the erosion of human capital in situations of conflict and displacement. In protecting the physical and mental health, education, and skills of participants, these programs can make an important long-term contribution to jobs and shared growth.
10. The range of modalities for support is very broad. It can target capital (access to finance; instruments to manage risk; IFC loans or equity investments; projects offering capital inputs or matching grants); labor (wage support; training; skills matching); complementary public investments in infrastructure and services; SEZs that may combine access to infrastructure and services with special regulatory regimes; market information; business advisory services; and investments that have signaling effects or demonstration effects (for instance, in showing that coordination along a value chain is viable).

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