

Creating Employment in Fragile Situations



WORLD BANK GROUP
Fragility, Conflict & Violence

*“For us, employment is
synonymous to peace”*

President Ellen Johnson Sirleaf



Core Course on Labor Markets
Washington, DC, 30 October 2019



Outline

- I. Life and work in fragile states.
- II. What's the connection between employment and instability, conflict, and violence?
- III. How can you create jobs in fragile environments?

I.



Creating Jobs in Fragile Situations

Life & work in fragile states





Conflict is expensive, & regions in conflict are poorer

- On average, a country experiencing major violence between 1981 and 2005 had a poverty rate 21 percentage points higher than a country with no violence.
- The economic cost of the conflict in the Indonesian province of Aceh was US\$10.7 billion.
- In Guatemala, criminal violence in 2005 cost US\$2.4 billion, or 7.3 percent of GDP
- In El Salvador, criminal violence in 2003 cost about US\$1.7 billion, or 11.5 percent of GDP.

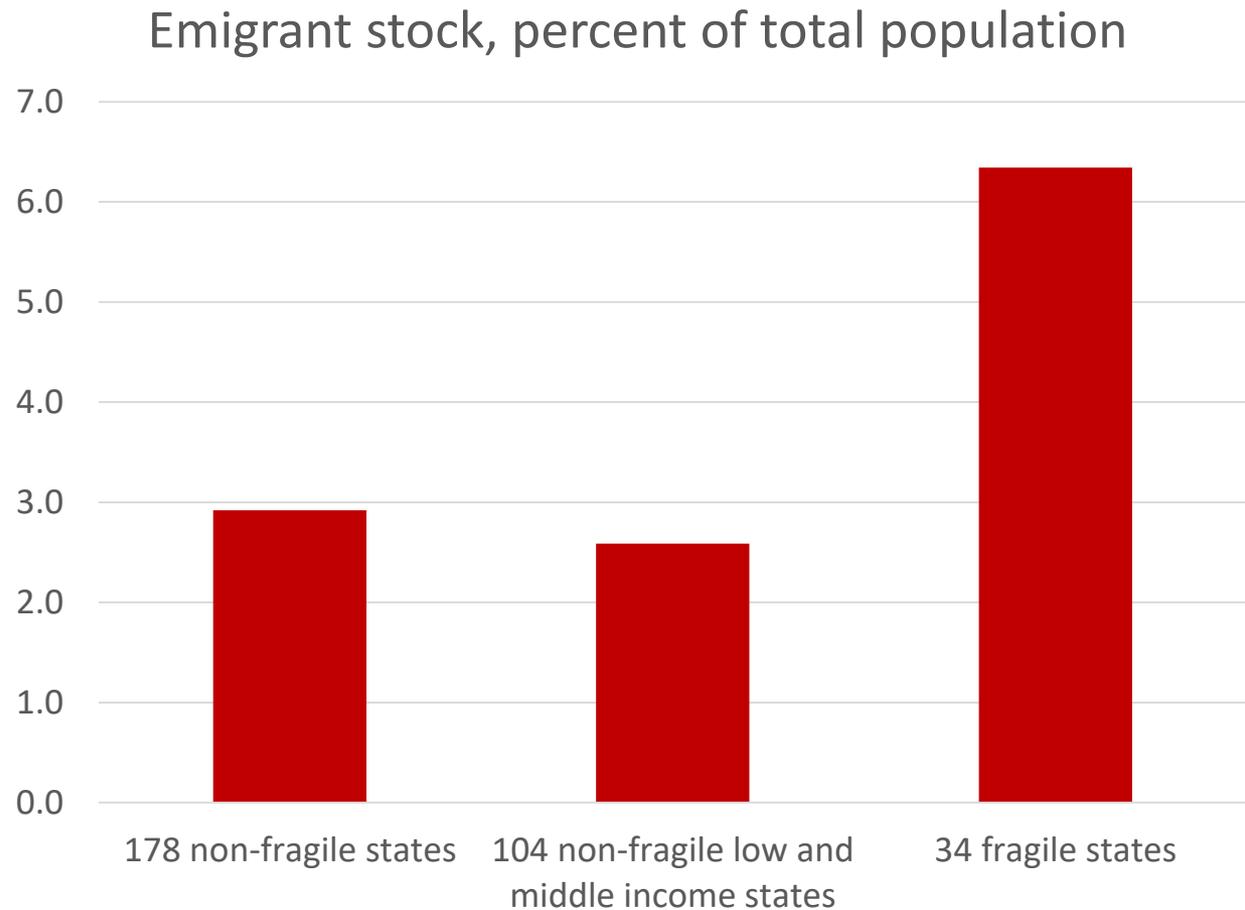


Fragile states are heterogeneous, but generally have weak institutions

Indicators (FY13)	CAR	Cote d'Ivoire	Kiribati
Income status	LIC	LMIC	LMIC
GDP per capita	\$333	\$1,521	\$1,651
Population	4.7m	20.8m	0.1m
Rural population	61%	47%	56%
Primary school completion rate	45%	65%	n/a
Doing Business rating (out of 189)	187	147	134
CPIA rating	2.45	3.14	2.95



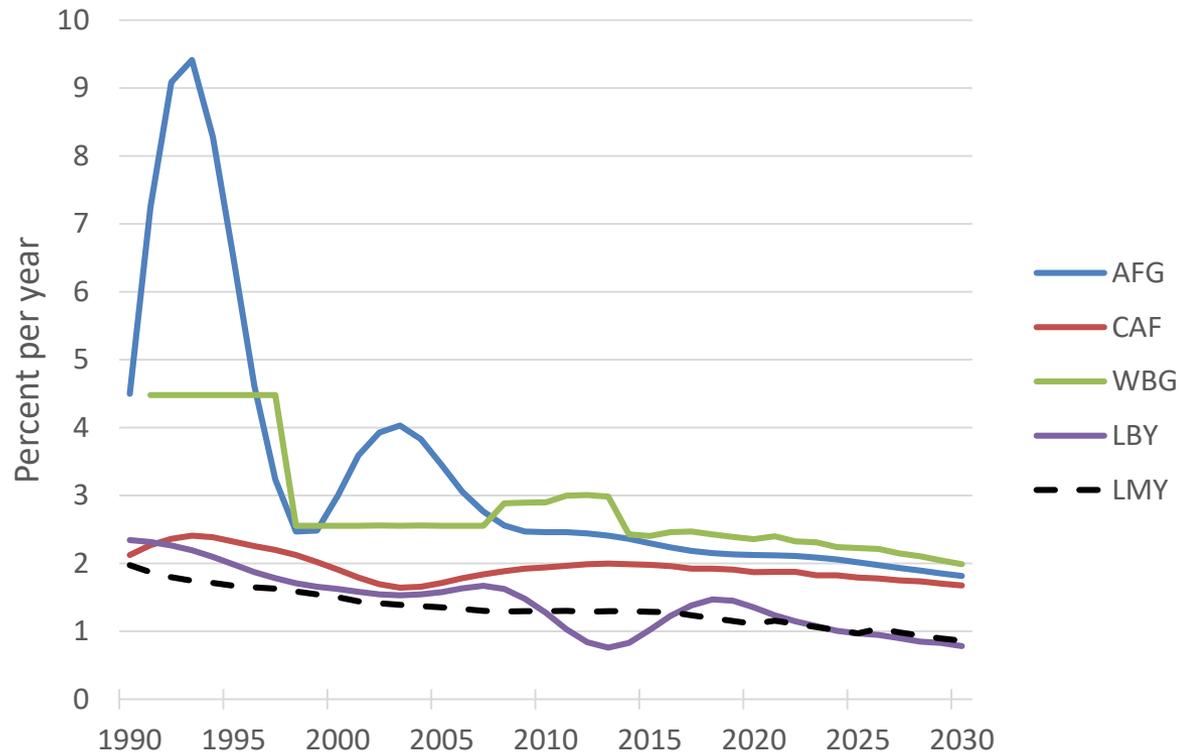
People are more likely to leave fragile states



Some fragile countries have experienced rapid population growth



Population growth, 1990-2030 (projected)



Population growth → ↑demand for jobs.



Between 2015 and 2030,

- 1-1.2 million entering labor force every year in India.
- 1 million entering the labor force every month in sub-Saharan Africa.
- 800m - 1 billion will enter labor force globally.

Will drive growth and prosperity in the future.

May be a threat to peace and security.

II.



Creating Jobs in Fragile Situations

What's the connection among employment and instability, conflict, and violence?



Jobs are probably important to exiting conflict, fragility and violence

- Low incomes reduce the opportunity cost of engaging in violence.
- Employment and livelihood opportunities are essential in early stage of transition from conflict.
- Jobs are critical to escaping violence and developing resilience (WDR 2013).

Restoring livelihoods is central to reducing the impact of trauma.



But there are challenges to the story of jobs and violence

Theoretical mechanism unclear:

- **Education:** Opportunity cost, socialization, or peer effects?
- **Income:** Opportunity cost or grievance?
Are wealthier people always more peaceful?

There is little experimental or observational evidence of the impact of employment or incomes on crime or violence.

Richer countries experience less conflict, but...

Economic growth in insecure situations can increase conflict and violence over rents:

- **Afghanistan, Iraq and the Philippines:** Changes in employment rates are positively correlated with changes in violence (Berman et al. 2010).
- **Colombia:** Exogenous negative income shocks lead to more violence in coffee producing regions, but positive income shocks lead to more violence in oil producing regions (Dube and Vargas 2013).
- **Pakistan:** Poor urban Pakistanis are less supportive of militant groups than their fellow citizens, most likely due to their greater exposure to the externalities of violence (Blair et al. 2012).
- **South Africa:** No evidence that unemployment and poverty are direct causes of violence against strangers among young men in Cape Town (Seekings and Thaler 2011).



III.



Creating Jobs in Fragile Situations

How can you create jobs in
fragile environments?





How can you create productive employment in fragile environments?

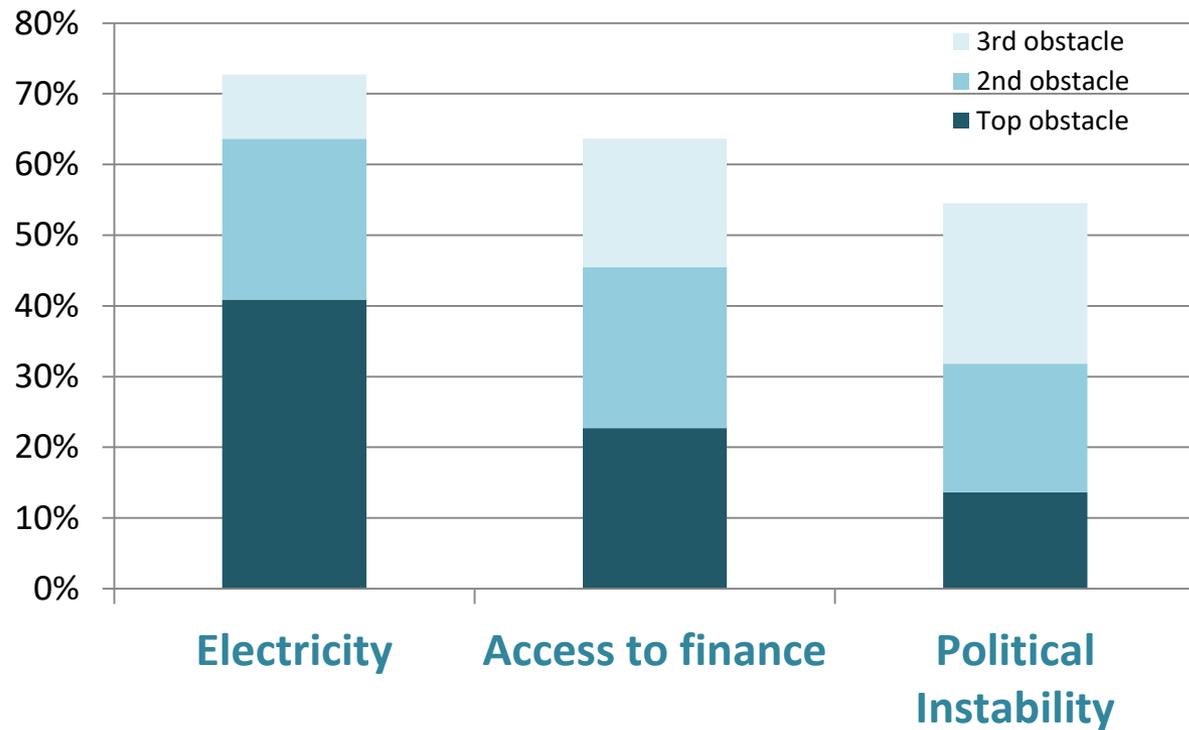
- Informal vs. formal sector.
- Promoting growth and private investment for job creation.
- Growth vs. job creation.
- Urgent short-run needs vs. medium and longer-run development objectives.

Barriers to private investment for job creation in FCS



People and communities	Firms and markets	Governance
<ul style="list-style-type: none">• Physical and psychological trauma• Risk of crime and violence• Erosion of trust• Lost capital (human, physical, financial, social)• Eroded networks• Loss of information	<ul style="list-style-type: none">• Risk of violence• Uncertain regulatory environment• Corruption• Thin and uncertain demand• Scarce and expensive inputs• Loss of business networks, supply chain• Loss of information• Elite capture	<ul style="list-style-type: none">• Collapse of public services• Weak and inconsistent revenue collection• Shifting and unpredictable resource allocation• Elite capture and rent-seeking• Inconsistent rule of law, legal protections, rights

Barriers to private investment for job creation in FCS (formal firms)





IEG Review of World Bank performance

- Private sector development has not yielded positive results in the short run.
- The sectors that drive growth may not drive job creation (eg extractives).
- Weak institutions, e.g. regarding land rights, are a significant cause of conflict and instability and a major constraint to private investment.
- Electricity is the most commonly cited constraint to private investment,
 - however, the WBG has invested \$1 billion in power generation in the DRC since 2000, but fewer than ten percent have access to electricity.

Sustained employment creation in FCS has proven to be more challenging

- **Addressing bottlenecks and barriers to investment is especially complex in FCS.**
 - Firms may be need to address rent-seeking directly (e.g. Roshan in Afghanistan, which earmarked local jobs)
- **Little is known about how to ensure short-term interventions lead to medium term job creation.**
 - Short-term initiatives can lead to the development of parallel governance structures.

The 2011, 2013, and 2019 WDRs talk of ‘transformational’ jobs, which minimize the trade-off between short-term crisis response and long-term job creation....



Evidence to date

- Some promising evidence from public works programs
- Returns to vocational skills alone limited
- Some positive returns to technical and “soft” skills
- Higher returns to self-employment, from both physical and human capital
- Entrepreneurial activity can increase in conflict (why?)