THE ROAD FROM CONFLICT TO RECONSTRUCTION, RECOVERY AND RESILIENCE IN THE MENA REGION

November 2020
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**ACRONYMS AND ABBREVIATIONS**

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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>BBB</td>
<td>BUILD BACK BETTER</td>
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<td>DNA</td>
<td>DAMAGE NEEDS ASSESSMENT</td>
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<td>EBRD</td>
<td>EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT</td>
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<td>EU</td>
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<td>FCS</td>
<td>FRAGILE AND CONFLICT-AFFECTED SITUATIONS</td>
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<td>FDI</td>
<td>FOREIGN DIRECT INVESTMENT</td>
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<td>GDP</td>
<td>GROSS DOMESTIC PRODUCT</td>
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<td>IDP</td>
<td>INTERNALLY DISPLACED PERSON</td>
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<td>ILO</td>
<td>INTERNATIONAL LABOUR ORGANIZATION</td>
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<td>IMF</td>
<td>INTERNATIONAL MONETARY FUND</td>
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<td>IPA</td>
<td>INVESTMENT PROMOTION AGENCY</td>
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<td>IsDB</td>
<td>ISLAMIC DEVELOPMENT BANK</td>
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<td>KPI</td>
<td>KEY PERFORMANCE INDICATOR</td>
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<td>M&amp;E</td>
<td>MONITORING AND EVALUATION</td>
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<td>MC</td>
<td>MEMBER COUNTRY</td>
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<td>MENA</td>
<td>MIDDLE EAST AND NORTH AFRICA</td>
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<td>MSME</td>
<td>MICRO, SMALL AND MEDIUM-SIZED ENTERPRISE</td>
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<td>NGO</td>
<td>NON-GOVERNMENTAL ORGANIZATION</td>
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<td>OCHA</td>
<td>ORGANIZATION FOR THE COORDINATION OF HUMANITARIAN AFFAIRS</td>
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<td>OECD</td>
<td>ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT</td>
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<td>PPP</td>
<td>PUBLIC–PRIVATE PARTNERSHIP</td>
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<td>PSD</td>
<td>PRIVATE-SECTOR DEVELOPMENT</td>
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<td>SEZ</td>
<td>SPECIAL ECONOMIC ZONE</td>
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<td>SME</td>
<td>SMALL AND MEDIUM-SIZED ENTERPRISE</td>
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<td>SUSTAINABLE DEVELOPMENT GOAL</td>
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<td>UN</td>
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<td>UNDP</td>
<td>UNITED NATIONS DEVELOPMENT PROGRAMME</td>
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<td>UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES</td>
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Fragility and conflict are radical development challenges facing the Islamic Development Bank member countries (MCs). Years of violent conflict have had a devastating human, economic, political, environmental, and social impact, leaving hundreds of thousands of people dead and much more forcibly displaced. Violent conflicts have devastated economies and essential infrastructure, hollowing out state institutions and fraying social fabric. Many IsDB MCs in the MENA region are affected by fragility and conflict; four countries currently suffer from active conflicts.

The Bank’s Ten-Year Strategy and the President’s Five-Year Program (P5P) envisage the IsDB as proactive and responsive to MCs’ challenges, including fragility and conflict. To address the challenge of fragility, the Bank has developed its first-ever Fragility and Resilience Policy to set the standards and strategic direction of IsDB to strengthen institutions, build resilience, and contribute to recovery, social cohesion, and sustainable development in member countries.

This report is an initial step towards operationalizing the IsDB policy and building on that policy to develop a conceptual framework to understand how countries can move towards greater resilience. This transition can be achieved through investments in the soft part of reconstruction and recovery and bringing new dimensions and narratives to contribute to recovery and resilience-building efforts.

The report analyzes the challenges and opportunities related to reconstruction, recovery, and resilience in MENA, focusing on the four conflict-affected states: Iraq, Libya, Syria, Yemen, and the two refugee-hosting countries: Jordan and Lebanon.

It also analyzes lessons learned to support reconstruction, recovery, and resilience in fragile- and conflict-affected situations. It links these lessons to the four conflict-affected countries’ specific experiences and the two refugee-hosting countries to provide a series of recommended next steps for donor interventions.

Tackling fragility requires a multidimensional approach to building resilience by investing in human, social, physical, and financial capital. During recovery and reconstruction, infrastructure and institutions should be built back better to adapt positively and respond to risks such as climate change and natural disasters which could compound the development challenges facing some IsDB Member Countries. IsDB has therefore supported member countries by investing in climate change resilience and supporting people affected by natural disasters.

International development partners should pursue a joined-up and complementary approach. No single actor can perform all the required tasks. International partner institutions – including multilateral development banks such as IsDB – should focus on specific tasks in which they have a comparative advantage. Besides being effectively coordinated, international development partners’ efforts to support reconstruction, recovery, and resilience must also be adequately phased according to each country’s place on the fragility-resilience continuum.

The report calls upon international development partners to commit themselves to support MENA countries’ transition from violence and fragility to resilience. At the same time, it is essential to emphasize that recovery and resilience-building are, and should always be, nationally owned processes led by member countries.

I am confident that this report’s recommendations and outcomes will help support MENA countries’ transition away from fragility and conflict towards peace, resilience, and recovery. The report’s findings will feed into IsDB’s Member Country Partnership Strategy and global value chain development programs and projects to address the region’s drivers of fragility and conflict.

Dr. Bandar M.H. Hajjar
President, Islamic Development Bank
THE ROAD FROM CONFLICT TO RECONSTRUCTION, RECOVERY AND RESILIENCE IN THE MENA REGION

ACKNOWLEDGEMENTS

The Road from Conflict to Reconstruction, Recovery and Resilience in the MENA Region was produced by the Human Development (HD) Division of the Resilience and Social Development Department and Country Strategy and Market Integration Division (CSMI) of the Country Strategy and Cooperation Department. I would like to thank Abdi Moalin Abdullahi, Manager, HD Division, and Syed Quadri, Manager, CSMI Division, for their leadership and guidance in producing this important regional report. The core team of Morooj Safdar (HD), Mohamed Alamin Mohamed Alhadi (HD), Mohammed Kamal Mahmoud (CSMI) and Mohammed Bukhari Ahmed (CSMI) has developed and finalized the report.

We acknowledge with thanks the IsDB staff from the Global Practice Complex, Country Relations and Service Complex, the Islamic Trade Finance Cooperation Entity (ITFC), the Islamic Cooperation for the Development of the Private Sector (ICD), the Islamic Cooperation for the Insurance of Investment and Export Credit (ICIEC) as well as the peer reviewers who attended the validation meeting in Istanbul and extensively reviewed and contributed to the report, including representatives from the World Bank, Institute for Economics and Peace, African Development Bank (AfDB), United Nations Development Programme (UNDP), INJAZ Lebanon, University of Jordan and the Humanitarian Academy for Development. Special thanks are also extended to the UNDP team, including Miki Takahashi, for their technical input and expertise.

Insightful feedback was provided by the members of the OECD MENA Economic Resilience Task Force during their Third Annual Regional Meeting in Berlin, Germany, and also by participants of the workshop organized by IsDB on ‘Managing Risks and Building Resilience in Fragile Environments’ in Rabat, Morocco.

We are grateful for the excellent facilitation and support of the IsDB Regional Hub, Ankara, for successfully conducting the validation meeting.

We acknowledge the contribution of Green Ink for editing and proofreading the report, and Impakt Adv. for designing the layout.

Finally, we owe special thanks to the consultancy firm Adam Smith International, which worked on the development of this report.

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Vice President, Country Programs Complex, Islamic Development Bank
Fragility and violent conflict are complex phenomena with multiple, interlocking causes. In the Middle East and North Africa (MENA) region, years of conflict threaten to trap countries in a cycle of fragility and violence. The challenges facing the region necessitate different narratives and approaches to address the drivers of fragility and violence. It is, therefore, incumbent on the development actors and donors to develop a comprehensive strategy that addresses the underlying drivers of fragility, across its various social, political, economic, security and environmental dimensions, and which builds greater resilience. This report presents chapters on investment in human and social capital, refugees and internally displaced persons (IDPs), private-sector development (PSD) and foreign direct investment (FDI), as they play crucial roles in the reconstruction and recovery of conflict-affected nations.
This report represents an initial step towards developing that strategy and bringing new dimensions and narratives to contribute to recovery and resilience-building efforts. It analyses the challenges and opportunities related to reconstruction, recovery and resilience in MENA, with a focus on the four conflict-affected countries of Iraq, Libya, Syria and Yemen, and the two refugee-host countries of Jordan and Lebanon. The report focuses on MENA region since a significant number of countries in this region are affected by conflict and also because of the high levels of fragility in the region when compared with other regions of the world as shown in the 2020 State of Fragility Report of OECD. Although conflict affected countries witness varying levels of conflict, there is a need to put emphasis on recovery and reconstruction efforts in these countries where applicable. One more reason for focusing on MENA region in this report is the effects of the conflict on countries that are not witnessing conflict through refugees. The report reviews recent thinking, narratives and research on fragility and violent conflict and assesses case studies of previous interventions in fragile and conflict-affected situations (FCS) to determine what works and what does not in terms of building resilience.

Building on recent analytical approaches, the report proposes a framework for how countries can build resilience by investing in four distinct assets or types of capital: human, social, physical and financial. The framework emphasizes that building social capital – the ties and bonds that connect people both horizontally with one another across society, and vertically with the State – is an essential cross-cutting requirement for effective recovery and building resilience. It also stresses the importance of managing the needs of forcibly displaced by conflict across all donor interventions, and the need for aid effectiveness through donor coordination and cooperation, both with other donors and with host governments. The report stresses the need for a new narrative and approach to support recovery and build resilience through locally led efforts and initiatives focusing on enhancing social, human, physical and financial capital to build back better.

This report highlights the spread and impact of COVID-19 on the Member Countries (MCs) in the MENA region, particularly those affected by conflict. The highlights of the report indicate that COVID-19 is a critical driver of fragility that exacerbates the existing economic, political and social tensions in MCs affected by fragility and conflict.

Supporting human development and PSD are identified as sectoral priorities for the Islamic Development Bank (IsDB), MCs’ governments and development actors. Development interventions that create meaningful employment and livelihoods opportunities for people are an important pathway to resilience. They build human capital in the form of improved skills, education and well-being; physical capital through improved hard and social infrastructure; financial capital through household incomes, government revenues and repaired markets; and, crucially, social capital as people interact collaboratively at work and in the marketplace, and through improved trust in state institutions.

Donor support to building resilience does not need to wait until violent conflict comes to an end. Although a country’s path to consolidated resilience ultimately relies on achieving comprehensive peace and a political settlement – endogenous processes that are beyond the scope of external actors –
targeted human development and PSD interventions can be effective even during conflict.

**Human, social, physical and financial capital tend to be weak and underdeveloped in FCS; in Iraq, Libya, Syria and Yemen they have been severely depleted to varying degrees though by years of violent conflict.** In terms of human capital, enabling and social infrastructure has been damaged or destroyed by fighting (e.g. more than half of health facilities in Libya and Yemen are closed or no longer fully functioning); human resource capacity has dissipated as many skilled workers have fled (e.g. 70 percent of Syrian healthcare workers have left the profession); and institutional, manufacturing and systems capacity has weakened (e.g. Syria produced 90 percent of its own medicines before 2011, but this has since collapsed).

Critical lessons learnt on human development include: 1) the need to ensure broad participation and community engagement, to create ‘buy-in’ from the civilian population and build social cohesion; 2) the importance of building institutional capacity at both central and local levels, including broad-based women’s participation; 3) ensuring a balance between effective ex ante planning and retaining the flexibility to adapt as circumstances change; 4) focusing on education as a pathway to building resilience and cohesion, both because of its importance in building human capital needed for social and economic recovery, and because of the contribution it can make to peacebuilding and creating ties across society; 5) ensuring cross-sectoral coordination to tackle complex social problems, such as early marriage; 6) investing in sustainable livelihoods by creating jobs and skills; 7) using a ‘build back better’ approach to create more resilient infrastructure, build institutional capacity and strengthen government capacity to effectively support resilience.

**An already weak and undiversified private sector has been further damaged by violent conflict.** The post-independence development model in MENA created a large public sector to provide jobs, services and social security to the population, and resulted in a limited private sector dominated by small and medium-sized enterprises (SMEs). These firms have disproportionately suffered as a result of damage to the fundamental enabling infrastructure (especially the electricity supply), the limited availability of credit and the poor security situation. The trend for FDI to flow primarily into the primary resource sector – which can potentially exacerbate violence in FCS – has continued. By contrast, FDI into the manufacturing sector, which can contribute to resilience and peacebuilding, is extremely limited.

The four violent conflicts have resulted in around 18 million refugees and IDPs in MENA, accounting for fully one quarter of the total number of forcibly displaced persons worldwide. Forced displacement is both a cause and a symptom of fragility, and has significant detrimental impacts on human, social and financial capital for migrants, communities of origin and host communities. The international community and development partners struggled to respond adequately to the protracted nature of the MENA displacement crisis, and in particular to the more than 5.3 million Syrian refugees living in Turkey, Jordan, Egypt and Lebanon. Alongside continued humanitarian assistance, greater emphasis needs to be placed on longer-term development solutions. Human development priorities include addressing the demand-side obstacles to refugees’ and IDPs’ access to health and education (e.g. the opportunity costs for families of sending their children to school), while long-term integration into host communities requires securing access to formal employment for migrants. Because of the potential negative impact of large-scale refugee and IDP flows on social cohesion, donors should ensure that interventions benefit host communities as well as migrants. In this regard, the Jordan Compact provides a useful model of how to support the integration of refugees while simultaneously enacting PSD reforms to improve the economic well-being of host communities.

Interventions should be tailored to the specific context of each country, and to the particular stage of the conflict or transition towards resilience in which it finds itself. The report identifies three main phases: 1) an immediate in-conflict or ‘stabilization phase’, where violent conflict is either ongoing or where peace settlements have yet to take hold, and where donor support should focus on meeting people’s immediate needs; 2) an early recovery or ‘transition’ phase, where the focus is on building resilience and protecting gains; and 3) the progress towards a more sustainable and inclusive development path, where the emphasis is on sustained growth and job creation.

The post-independence development model in MENA created a large public sector to provide jobs, services and social security to the population, and resulted in a limited private sector dominated by small and medium-sized enterprises (SMEs).
needs, supporting peace deals and avoiding a relapse into violence; 2) a medium-term ‘recovery and restructuring phase’, in which interventions transition from a humanitarian to a more sustainable development approach; and 3) a ‘transformative phase’, which focuses on developing the longer-term capacity of institutions and practices to secure lasting economic growth and social development.

Examples of potential activities during the initial ‘stabilization phase’ for human development might include restoring essential services, including basic hospital functionality, initiatives to enable children to return to school and catch-up classes for young adults. They should also include support to livelihoods – for example, in the form of cash transfers to vulnerable populations and public works schemes. Key activities for PSD include restorative planning to identify priority sectors, contractors and suppliers, ensuring a rapid improvement in services and activating an improved investment climate – for example, by mobilizing the distribution of loans to SMEs through local banks.

During the ‘recovery and restructuring phase’, investments in human capital development should expand service provision to include broader public health schemes (e.g. sanitation), and initiatives to incentivize the inclusion of girls, children with disabilities, refugees and IDPs in services. They should also focus more on building inclusion – for example, through community security and safety schemes (e.g. street lighting and neighbourhood watch), and by integrating refugees and IDPs into community life. For PSD, activities will include more structured assistance for SMEs (e.g. to improve their operational resilience and ability to enter value chains), supporting essential legal/regulatory changes (e.g. related to FDI and Special Economic Zones), creating an investment promotion agency and undertaking a structured investment promotion campaign, and expanding the reach of financial services.

A longer-term ‘transformative phase’ would see investments in human development focus on rebuilding stronger systems, including education systems (e.g. curriculum reform and accreditation of teachers) and health systems (e.g. focusing on creating smaller and more accessible local health units). It would also see a continued emphasis on investing in youth – for example, via vocational training initiatives that seek to match skills to job market requirements. For PSD, activities should look to deepen financial resilience through the incremental transfer of traditional government services to the private sector (e.g. via public–private partnerships), support governments to increase the speed of business registration, expand the activities of the investment promotion agency by developing a comprehensive project portfolio using blended and project finance, and continue incremental investments in enabling and social infrastructure.

Finally, the recommendations of the report are divided into three categories, corresponding to those three broad stages of the transition away from violent conflict and the fragility–resilience continuum. In line with IsDB’s Fragility and Resilience Policy, this report advances a framework for building resilience in MENA by investing in the four types of assets or capital: human, social, physical and financial. They are mutually reinforcing, and together help to counter the various dimensions of fragility. The report lastly summarizes a series of practical recommendations for activities that can form the basis of IsDB investments in human development and PSD in fragile and conflicted-affected countries in the region. In crafting the recommendations, the plans and thinking of the governments of Libya, Iraq and Yemen have been taken into account, particularly in private sector investment, job creation, investment, education and skills development, and healthcare. These recommendations have been divided into three broad categories, corresponding to three distinct phases through which countries transition on the path from fragility to resilience.
The Middle East and North Africa (MENA) is one of the world's most fragile regions. Over the past decade, the bulk of the world's deadliest conflicts have been in MENA, such as those taking place in Syria, Yemen, Iraq, Libya and Turkey. Years of violent conflict have had a devastating human, economic, political, environmental and social impact, leaving hundreds of thousands of people dead and many more forcibly displaced, devastating economies and essential infrastructure, hollowing out state institutions and fraying the social fabric. Today, the intensity of fighting across the region has reduced, but the underlying drivers of fragility and conflict remain. If they are left untreated or are exacerbated by ineffective governance and donor interventions, MENA risks being condemned to further cycles of debilitating violence. It is, therefore, incumbent on the international community to develop a comprehensive strategy for supporting the region's transition towards sustainable peace that addresses these underlying causes of fragility and violence.
This report represents an initial step towards developing that strategy. It analyses the challenges and opportunities related to reconstruction, recovery and resilience in MENA countries affected by fragility and violent conflict. While it does not offer a detailed blueprint for reconstruction, the report provides broad strategic recommendations to inform and guide donor interventions, in particular those of the Islamic Development Bank (IsDB). It does so by first advancing a framework for how countries can be supported to transition from fragility to resilience, through investments in human, social, physical and financial capital. It focuses on human development and private-sector development (PSD), which it identifies as priority areas for development assistance. Support to these two sectors can facilitate job creation and meaningful employment opportunities for citizens, set the stage for equitable and long-term economic growth, rebuild essential physical and social infrastructure and strengthen social cohesion. Second, the report analyses lessons learnt from other contexts to identify what works and what does not work in terms of supporting reconstruction, recovery and resilience in fragile and conflict-affected situations (FCS). Third, the report links these lessons learnt to the specific experiences of the four conflict-affected countries of Iraq, Syria, Libya and Yemen, and the two refugee-host countries of Lebanon and Jordan, to provide a series of recommended next steps for donor interventions.

This report builds on and expands IsDB’s recent thinking on fragility and resilience and fills an important gap in the broader donor debate. It complements IsDB’s 2019 Fragility and Resilience Policy – and other recent conceptual studies such as the Organisation for Economic Co-operation and Development (OECD) States of Fragility 2018 and the LSE–Oxford report Escaping the Fragility Trap – by bridging theoretical approaches to fragility and resilience with the specific context of the MENA region, as well as lessons learnt from earlier donor experiences. The report is intended to serve as a practical guide for IsDB, with recommendations for how it can begin to operationalize its policy.

Three broad categories of donor recommendations are proposed, corresponding to three distinct ‘conflict stages’ through which countries are likely to pass on their transition from conflict to resilience. These phases are: 1) an in-conflict ‘transition’ phase; 2) a mid-term ‘recovery and restructuring’ phase; and 3) a longer-term ‘transformative’ phase. These three categories broadly correspond to the four pillars of IsDB’s Fragility and Resilience Policy: 1) investing in prevention; 2) transitioning relief to development; 3) supporting recovery and resilience; and 4) mobilizing resources for resilience.
These recommendations come at an important time for the MENA region, as the international community looks to revive a number of stalled peace processes. In September 2019, for example, a lull in fighting in north-west Syria was followed by the creation of a new committee backed by the United Nations (UN) and tasked with drafting a new constitution. At the same time, various groups attempted to restart the UN peace process in Libya and broker a deal between the country’s internationally recognized Government of National Accord and the Libya National Army. In Yemen, meanwhile, a prisoner release has raised hopes of a resumption of comprehensive peace talks. IsDB, and other multilateral institutions and donor bodies, can play an important role in supporting peacebuilding efforts, delivering significant peace dividends for war-weary populations. More importantly, by tackling the underlying drivers of fragility and conflict, they can set the basis for longer-term recovery and resilience.

The methodology for this report combined an extensive literature review, interviews with key stakeholders, a round-table discussion with both IsDB officials and external stakeholders, and original analysis provided by Adam Smith International’s (ASI) team of expert consultants. The literature review covered recent conceptual thinking on fragility, resilience, violent conflict and strategies for reconstruction and recovery, in-depth country analysis of the six main case study countries, and lessons learnt from previous donor interventions in the MENA region and beyond. A total of 12 key informant interviews were conducted with stakeholders jointly identified by IsDB and ASI, including in the Governments of Iraq, Libya and Yemen. A first draft of this report was presented at a workshop in Istanbul in September 2019 that included a round-table discussion between IsDB officials, external stakeholders from the UN, the European Union (EU) and elsewhere, and the ASI project team. Feedback from the discussion was then incorporated into the report’s final draft.

Three broad categories of donor recommendations are proposed through which countries are likely to pass on their transition from conflict to resilience: 1) an in-conflict ‘transition’ phase; 2) a mid-term ‘recovery and restructuring’ phase; and 3) a longer-term ‘transformative’ phase.
It is important to acknowledge that there are a number of limitations inherent in a report of this nature. First, the report attempts to maintain a balance between a focus on cross-cutting themes in MENA – which allows for the development of a broad conceptual framework – and country-specific issues. However, this is no substitute for granular, country-level analysis, and donor institutions should conduct detailed conflict analysis and political economy analysis in target communities prior to launching an intervention. Second, because the report focuses primarily on four conflict-affected countries and spillover effects in Jordan and Lebanon, it may lack direct specificity and application to some other parts of MENA and to some IsDB Member Countries (MCs). Third, because of ongoing violent conflict in MENA, there is at present a lack of accurate and up-to-date data on the actual extent of damage and priority needs on a country level. This will hinder the development of detailed blueprints for reconstruction, and again requires in-depth and in-country research. Fourth, the report focuses on recommending concrete and actionable opportunities that fall within IsDB’s mandate of supporting MCs to transition away from fragility.

The report is divided into seven chapters. Following this introductory section, Chapter 2 outlines the theoretical underpinnings of this study by reviewing recent thinking and research on fragility and resilience and on strategies for reconstruction and recovery. It also lays out the conceptual framework proposed by this study for supporting resilience through investment in human, social, physical and financial capital. Chapter 3 analyses the causes and dimensions of fragility in MENA, focusing on the four main case study countries of Iraq, Libya, Syria and Yemen. Chapter 4 reviews strategies for supporting human development through investments in human and social capital, drawing on lessons learnt from previous donor interventions. Chapter 5 analyses MENA’s forced displacement crisis as both a symptom and a driver of fragility, using Jordan and Lebanon as case studies. It identifies opportunities to better facilitate the integration of refugees and internally displaced persons (IDPs) while simultaneously supporting host communities. Chapter 6 considers the role of PSD in facilitating a sustainable and long-term transition to resilience in which citizens have greater access to meaningful employment and governments expand their fiscal base. Finally, Chapter 7 provides a series of recommendations for IsDB and identifies several potential challenges and trade-offs, together with risk mitigation strategies.
To successfully support a country’s transition towards sustainable peace and recovery, donor strategies must first identify the underlying causes and drivers of violent conflict and instability. Amid a surge in the number and intensity of armed intra-state conflicts in recent years – particularly in the MENA region – there has been growing interest among donors, practitioners and academics in the twin concepts of fragility and resilience, and their respective relationships to violent conflict and recovery.
This chapter reviews current thinking and research on fragility and resilience, focusing on a number of important recent studies by the World Bank, the UN, the OECD and others. It builds on IsDB’s Fragility and Resilience Policy to develop a conceptual framework for understanding how countries can transition towards greater resilience through investments in human, social, physical and financial capital. The conceptual framework shapes the discussion of specific donor interventions related to human development, the integration of refugee and migrant populations, and PSD, detailed in Chapters 3 to 5. Finally, the chapter provides an overview of the dimensions of fragility in MENA.

**Fragility and resilience**

Much of the earlier theoretical debate on the causes of violent conflict, and post-conflict reconstruction strategies for tackling these causes, is today seen as overly simplistic. There is now growing consensus that violent conflict is caused by multiple, interlocking factors and cannot be easily explained through reference to economics or poor institutions alone, as previous theories suggested. Similarly, the term ‘post-conflict’ suggests a clear, linear transition to peace that rarely exists in practice; instead, countries often suffer recurring waves of violence. Linked to this is the fact that violent conflict is not a stand-alone phenomenon and is only one of a number of different risks and challenges that affect a society’s ability to pursue a path of sustainable and equitable development. Together, these risks and challenges, and the inability of a State or society to adequately respond to them, comprise fragility.

Fragility is multidimensional. The OECD fragility framework lists five distinct dimensions of fragility: economic, environmental, political, security and societal (see Table 1). There is often no single cause of fragility, but rather, as Collier, Besley and Khan (2018) argue: “webs of multi-directional causation”. This makes any attempt to tackle one single symptom of the syndrome extremely difficult.

Fragility is concerned at its core with limited social capital and social cohesion. This includes horizontal inequalities, where certain groups perceive themselves to be excluded or marginalized politically, socially or economically. Pathways for Peace argues that it is “exclusion from access to power, opportunities, services, and security that causes fertile ground for mobilising group grievances to violence”. There are also deep horizontal divisions in society, between different identity groups. According to the OECD, it is the absence of shared networks and norms for cooperation that is “arguably the biggest underlying deficit in fragile contexts”.

Fragility is not just about violent conflict, but violent conflict exacerbates all other dimensions of fragility. Countries or societies may not be experiencing active fighting, but underlying drivers of fragility and latent conflict may remain. The absence of violence may give the illusion of sustainable peace, but more likely a society is trapped in a cycle of violence and fragility. Examples would include

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**Figure 1. Brahm’s model of conflict phases**

![Figure 1. Brahm’s model of conflict phases](image-url)

the case of Iraq, which has experienced successive waves of conflict since 2003.

- **Fragility exists on a continuum.** It can be difficult to determine exactly how or when a country or community stops being fragile. Instead, because of the unique features of each context, it can be helpful to think of fragile situations as existing on a spectrum or continuum.\(^\text{18}\)

- **Fragility does not respect state borders.** The International Monetary Fund (IMF), for example, argues that fragility in sub-Saharan Africa has often resulted from security spillovers from neighbouring countries.\(^\text{19}\) Cross-border fragility manifests itself in the spread of armed non-state actors and large numbers of forcibly displaced migrants, both refugees and IDPs.

With these points in mind, it is instructive to consider in more detail some of the characteristics associated with FCS, and the way in which these characteristics interact with one another. FCS typically show a number of shared characteristics, including:

- limited social capital, manifesting in divided societies, with groups splintered along identity lines;
- a contested social contract, with individuals and groups challenging state legitimacy;
- weak or underdeveloped state institutions, manifesting in poor or unequal service provision, which can contribute to narratives of marginalization among certain groups;
- sporadic violence, both because of weak or predatory state security institutions and because of divisions between social groups; and
- an underdeveloped economy, often manifesting in crony capitalism and a weak private sector, a large informal sector and significant inequality.\(^\text{20}\)

### Table 1. OECD states of fragility framework: the five dimensions of fragility

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Vulnerability to risks stemming from weaknesses in economic foundations and human capital, including macroeconomic shocks, unequal growth and high youth unemployment</td>
</tr>
<tr>
<td>Environmental</td>
<td>Vulnerability to environmental, climatic and health risks that affect citizen’s lives and livelihoods. These include exposure to natural disasters, pollution and disease epidemics.</td>
</tr>
<tr>
<td>Political</td>
<td>Vulnerability to risks inherent in political processes, events or decisions; corruption and a lack of political inclusiveness (including of elites), transparency and a society’s ability to accommodate change and avoid oppression</td>
</tr>
<tr>
<td>Security</td>
<td>Vulnerability of overall security to violence and crime, including both political and social violence</td>
</tr>
<tr>
<td>Societal</td>
<td>Vulnerability to risks affecting societal cohesion that stem from both vertical and horizontal inequalities, including inequality among culturally defined or constructed groups and social cleavages</td>
</tr>
</tbody>
</table>

From fragility to resilience

Resilience is the opposite of fragility.21 In line with IsDB’s Fragility and Resilience Policy (2019), this report defines resilience as “the ability to positively adapt and transform households, communities and states’ structures and means to respond to risks, stresses and shocks”.22 Shocks and stresses refer to issues or events that cause adverse effects; shocks tend to be more sudden, and stresses more long-term.23 As with fragility, resilience is a broad concept with a number of key features.

- **Resilience is multidimensional.** The OECD argues that resilient societies require six distinct assets or types of capital: financial, human, natural, physical, political and social;24 while IsDB’s Fragility and Resilience Policy (2019) focuses on physical, financial, human and social capital.

- **Resilience has absorptive, adaptive and transformative capacities.** Resilient societies are, therefore, able to plan effectively to mitigate the impact of potential shocks and stresses, adapt following the onset of a crisis, and recover in its aftermath.25

- **At its core, resilience requires the development of an effective social contract and strong social cohesion.** States must, therefore, be able to meet societal expectations, including the provision of essential services, while societies require high levels of horizontal trust to encourage groups to work together for the common good.26

- **Supporting economic recovery and sustainable and equitable growth is a key element of resilience.**27 Job creation can have an immediate stabilizing effect on a society, and that longer-term economic growth means that people acquire a greater stake in society, and state capacity and legitimacy all increase.28

Societies typically fall along a continuum between fragility and resilience29 (see Figure 2). Developing resilience across

---

**Figure 2. Characteristics of societies along the fragility–resilience continuum**

<table>
<thead>
<tr>
<th>Societal</th>
<th>Political</th>
<th>Economic</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High levels of social capital</td>
<td>• Strong and capable state institutions</td>
<td>• Equitable economic growth</td>
<td>• Capable, fair and accountable law and order institutions</td>
</tr>
<tr>
<td>• Cohesive society unified by shared vision, common bonds</td>
<td>• Equitable provision of basic functions and services</td>
<td>• Strong private sector facilitated by regulatory and legal environment</td>
<td>• Low levels of community or intra-state violence</td>
</tr>
<tr>
<td>• Presence of institutions to manage disputes</td>
<td>• High levels of legitimacy</td>
<td>• Job opportunities provide meaningful livelihoods</td>
<td></td>
</tr>
<tr>
<td>• High and equitable levels of human capital – opportunities for all</td>
<td>• Participatory and accountable governance</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Limited social capital: few or broken bonds, lack of common vision and mediating institutions</td>
<td>• Weak or low capacity state institutions</td>
<td>• Poor, uneven and unequal growth</td>
<td>• Weak and predatory security institutions that target particular groups</td>
</tr>
<tr>
<td>• Society divided into oppositional groups based on identity</td>
<td>• Poor or unequal basic service provision</td>
<td>• Weak private sector – crony capitalism</td>
<td>• Periodic outbreaks of violence (including armed conflict and terrorism) often carried out by non-state actors</td>
</tr>
<tr>
<td>• Groups excluded on basis of identity</td>
<td>• Limited state legitimacy</td>
<td>• Large informal economy</td>
<td>• High levels of crime, including organized crime</td>
</tr>
<tr>
<td>• High levels of mistrust between groups, and between groups and the State</td>
<td>• State seen as a resource to be captured by elites</td>
<td>• High rates of unemployment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Non-participatory politics</td>
<td>• Dependence on natural resource exports</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• High levels of corruption</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
its multiple dimensions is, therefore, crucial for supporting a country’s transition away from fragility. As the Pathways for Peace report concludes: “The best way to prevent societies from descending into crisis, including but not limited to conflict, is to ensure that they are resilient through investment in inclusive and sustainable development. For all countries, addressing inequalities and exclusion, making institutions more inclusive, and ensuring that development strategies are risk-informed are central to preventing the fraying of the social fabric that could erupt into crisis.”

A framework for building resilience across four types of capital

Building on the conceptual analysis provided by the OECD and IsDB’s Fragility and Resilience Policy (2019), this report argues that countries and societies can build resilience and progress along the continuum away from fragility by investing in four specific assets or types of capital: human, social, physical and financial (see Figure 3).

As the above discussion makes clear, improved social capital and social cohesion are of fundamental importance to resilience and are cross-cutting themes that must be addressed across the multiple dimensions of resilience. For example, economic resilience is built not simply by expanding economic growth and job creation; rather the benefits of growth and new jobs must be shared to some extent across society, rather than limited to a narrow elite. Similarly, improved human capital, in the form of better education and health outcomes, must apply to rural as well as urban populations, and women, youth and elderly people as well as working-age men. Building social capital and cohesion is, therefore, a cross-cutting issue that bisects the three other types of capital, as described below.

- **Investing in human capital** in the form of better education, training, nutrition and psychosocial well-being. Human capital creates the skills and well-being required to provide meaningful opportunities for citizens, to create the foundations of a cohesive and cooperative society (social capital) and the bedrock of economic development (financial capital).

- **Investing in financial capital** revitalizes markets and trade to facilitate economic recovery, creating jobs that boost individual and household well-being, as well as government tax revenues. Jobs boost individuals’ sense of well-being and of their place in society, and build legitimacy for the State. They also boost social cohesion by facilitating peaceful and cooperative horizontal interaction between different groups in society.

- **Investing in physical capital** builds and repairs the infrastructure essential for both economic recovery (roads, bridges, water and electricity networks) and improved human capital (schools, hospitals etc.).

- **Investing in social capital** ensures that the above gains are equitably shared across society, and that individuals and groups share a common purpose and sense of belonging in society.

Figure 3. A framework for building resilience by investing in four types of capital
Fragility in the MENA region

Years of violent conflict have had a devastating impact across the MENA region. Fighting in Iraq, Syria, Libya and Yemen has left hundreds of thousands of people dead, and many millions displaced. As economies have contracted, millions have been plunged into poverty, while the hollowing out of political and social institutions has further undermined state legitimacy and capacity, threatening to trap these countries in a cycle of violence and fragility. What was originally a series of localized conflicts has also morphed into wider conflagrations that threaten wider regional stability. The proliferation of weapons and armed non-state actors has created a ‘spillover’ effect, as has the involvement of regional and global powers.32

At the time of writing, the intensity of fighting in all four countries has reduced, even as comprehensive peace appears a long way off. In Iraq, the central government continues to face a low-level insurgency from ISIS, despite declaring victory against the group in 2017.33 Meanwhile, a dispute with the Kurdistan Regional Government in the north of the country34 and popular discontent in the south grind on.35 In neighbouring Syria, the government in Damascus has largely prevailed in an eight-year war against various opposition and Kurdish groups but does not control the whole country. Libya and Yemen, meanwhile, remain territorially divided between rival parties. The violence and instability that have swept across the Middle East in recent years provide a good illustration of the value of thinking in terms of fragility and resilience.

The outbreak of violent conflict across MENA cannot be explained by reference to economic failures alone. With the exception of Yemen, the countries in question were middle-income economies that had exhibited modest but encouraging growth.37 Economic indicators painted a favourable picture and suggested that Arab governments had delivered on economic and human development goals.38 Likewise, the billions of dollars spent on rebuilding the Iraqi State after 2003 suggest that the problem cannot simply be ascribed to a failure of Middle Eastern countries to adopt formal, Western-style institutions.

Instead, the examples of the region fit the model of fragility in a number of key ways.

• Violence and fragility are multidimensional. MENA countries face multiple, interlocking shocks and stresses across human, social, economic, political, environmental and security dimensions, and it is difficult to identify a single cause of violent conflict. Several studies have pointed to popular grievances and narratives of exclusion as driving violence in the region, and this is indeed important, but there are a number of other important drivers that have interacted with each other in numerous ways. Societies are deeply divided (social fragility) and have become more so as conflicts have evolved. Fighting has polarized societies along sectarian, ethnic, regional and political lines.
Meanwhile, despite an overall positive economic performance, most countries were experiencing stagnant economic growth, a lack of jobs (especially for young people), a reduction of the welfare state and subsidies, and a perception of declining living standards (economic fragility). Environmental fragility has also been a factor: a serious drought in Syria between 2006 and 2010 drove thousands of people away from agricultural land in the north and north-east of the country into cities, where they became a largely marginalized underclass.

- **Limited social capital and cohesion and a broken social contract underpin fragility.** This is a cross-cutting factor across all of the various dimensions of Middle Eastern fragility, manifesting itself in deep-seated horizontal inequalities. Thus, the major characteristics of both economic fragility (rentierism, crony capitalism and a collapsing socio-economic model) and political fragility were a breakdown of the implicit social contract between the State and society (see Figure 2).

- **Fragility is not just about violence, but violence reinforces other dynamics of fragility.** As mentioned above, fragility is multidimensional, and violent conflict is only one feature (albeit a very important one). Iraq has experienced waves of violence since 2003; following the defeat of ISIS in 2016, the country is currently out of violent conflict but remains fragile. Underlying drivers of conflict and fragility remain in place, meaning that violence could re-emerge. Violence has also exacerbated and reinforced the other dynamics of MENA fragility – for example, by deepening social cleavages between groups and further entrenching vested interests in a distorted war economy.

- **Fragility in MENA exists on a continuum.** The four main case study countries (Syria, Libya, Yemen and Iraq) are at different stages of the ‘conflict cycle’. Iraq exited violent conflict following the defeat of ISIS in 2016; the intensity of the war in Syria has decreased since 2018 amid a move to military victory by the Syrian government and a political settlement, although fighting continues in some areas; while Libya and Yemen remain mired in violence, with little sign of a negotiated settlement on the horizon. Lebanon and Jordan, meanwhile, are less fragile, and have been able to avoid and mitigate a number of shocks and stresses but are still under the pressure of hosting millions of refugees.

- **Fragility crosses borders.** The various MENA conflicts began as localized issues that subsequently spiralled out of control and acquired an international dimension. The forced displacement of civilians has been perhaps the most noticeable spillover: over 5.6 million Syrians have fled the country since 2011, mostly to Turkey, Lebanon and Jordan. Not only is forced displacement a major symptom of fragility, causing massive loss of human and social capital, it also acts as a potential driver of fragility, putting considerable pressure on host countries (see Chapter 5). Finally, violence has had a major impact on regional trade flows and growth.

Any engagement in reconstruction, recovery and resilience in the four countries is also likely to encounter a number of common challenges:

- With the partial exception of Iraq, the four countries are still enmeshed in conflict rather than being in any kind

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**Box 1. The MENA development model**

Beginning in the 1950s and 1960s, many Arab States pursued a policy of development centred on import substitution and domestic industrialization and achieved impressive economic growth and gains in human capital (including life expectancy, public health and literacy). Funded by growing oil exports and other rents, some MENA countries became ‘rentier States’, with an implicit contract whereby the government secured legitimacy by providing public-sector jobs and generous social welfare to citizens. But by the 1980s, the Arab republics, unlike the wealthier Gulf monarchies, began to find it increasingly difficult to secure the hard currency needed to pay for the system and began to enact IMF- and World Bank-backed economic reforms. But economic liberalization without political reform has led to complaints of corruption, with individuals affiliated to political elites capturing the gains of privatization.

Meanwhile, Arab States have been unable to replace the bloated public sector with a developed private sector, and many workers have been forced into the informal economy. This is particularly a problem for young people, who are often well educated but face a mismatch in terms of their skills and employment opportunities. Youth unemployment – reaching 26 percent in 2018 – is the highest in the world. Efforts to reduce public-sector employment and social welfare provision have thus played out against a backdrop of widespread accusations of growing corruption and conspicuous elite wealth, fuelling a sense of declining living standards even as income growth overall remained favourable. This has led many observers to suggest that it was primarily a broken social contract that led to the Arab Spring protests.
Limited social capital and cohesion and a broken social contract underpin fragility.

of post-conflict phase. Until there is a comprehensive political settlement, the prospects for meaningful recovery or rebuilding social cohesion are limited. This is accepted by governments in MENA too, as indicated by engagement with the governments of Libya, Iraq and Yemen.

• Investment in social cohesion, resilience and recovery should not seek to restore the status quo ante (the pre-conflict situation or arrangements), as these were likely to have been a contributor to conflict either in the way they benefitted some in society or excluded others. Furthermore, most of the conflicts – especially in Syria – have led to considerable movement of populations and destruction of human capital, making a straight recovery virtually impossible in all but the least-affected areas.

• Investments should be conflict-sensitive – i.e. designed to alleviate sources of conflict and to address underlying roots of conflict.

• Investment decisions and approaches should be framed by the principles of effective development cooperation, which prioritize country ownership and leadership, and coordination among development partners, in support of country priorities to avoid overlap and duplication and promote mutual accountability.

• Reconstruction, on the one hand, and building resilience and social cohesion, on the other, may be in tension with one another, especially where pressure to deliver short-term and high-visibility results (e.g. reconstruction of schools or hospitals) leads to insufficient or inadequate consultations with communities or avoids addressing underlying roots of conflict.

In some instances, donors will face the decision of whether to work through state or non-state actors. While this is a question faced in all aid and development interventions, it is particularly pressing in conflict and post-conflict settings. For IsDB, the State would ordinarily be the main partner and channel for assistance.
This chapter provides detailed case studies examining the causes and impacts of violent conflict in Iraq, Syria, Yemen and Libya being among the most affected countries in MENA by violent conflicts during the last decade. For each country case study, the primary drivers of conflict and fragility are first summarized according to the following five categories: 1) a divided society; 2) limited state legitimacy; 3) limited state capacity; 4) inadequate security and periodic violence; and 5) an underdeveloped and narrow economy. Next, the case studies examine the impacts of violent conflict on human, social, financial and physical capital, before providing an overview of the economy and the private sector in each country.
3.1 Case studies: Conflicts in Iraq, Syria, Yemen and Libya

Iraq

Iraq is the only one of the four main case study countries that can be said to have exited active conflict. As emphasized by representatives of the Iraqi government, it is finally beginning to recover after a decade of civil war. Since 2003, following the USA-led overthrow of Saddam Hussein, Iraq has faced recurring episodes of internal violent conflict. At its height there were as many as 6 million IDPs, of whom 4 million have returned to their communities, but the challenges of regeneration and reconciliation are huge. In 2018 there was a significant reduction in violence, and Baghdad is now the safest it has been in 15 years.

The World Bank and the Government of Iraq estimated losses from the war with the Islamic State in Iraq and the Levant (ISIL) at close to $46 billion, with needs resulting from the conflict totaling approximately $88 billion. The below copied Figure 4 provides detailed losses and needs in selected sectors.

Drivers of conflict and fragility

A divided society and limited state legitimacy. Low levels of social capital and social cohesion have both contributed to and been compounded by a second problem: the fragile political system established in 2003 that sought to balance power between different social groups. As well as establishing new and legitimate forms of governance, the system has also been subject to competition between rival parties for control over arms of government and sources of patronage for constituents. Increasing sectarian trends in society have been compounded by this competition and by efforts of groups to monopolize violence and conflict.

Figure 4: Overview of losses and needs from the war with ISIL (in Selected Sectors)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Damage Cost (in Iraqi Dinar-IQD-Billion)</th>
<th>Needs (IQD Billion)</th>
<th>Needs (US$ Million)</th>
<th>% Share of Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>18,746 (16,077)</td>
<td>20,615</td>
<td>17,441</td>
<td>19.8%</td>
</tr>
<tr>
<td>Health</td>
<td>2,710 (2,324)</td>
<td>5,159</td>
<td>4,365</td>
<td>4.9%</td>
</tr>
<tr>
<td>Education</td>
<td>2,763 (2,369)</td>
<td>5,391</td>
<td>4,561</td>
<td>5.2%</td>
</tr>
<tr>
<td>Social Protection</td>
<td>N/A</td>
<td>7,532</td>
<td>6,373</td>
<td>1.9%</td>
</tr>
<tr>
<td>Productive Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.425 (2,080)</td>
<td>4,010</td>
<td>3,393</td>
<td>3.8%</td>
</tr>
<tr>
<td>Water Resources</td>
<td>134 (115)</td>
<td>245</td>
<td>207</td>
<td>0.2%</td>
</tr>
<tr>
<td>Industry and Commerce</td>
<td>5,955 (6,107)</td>
<td>12,506</td>
<td>10,580</td>
<td>12%</td>
</tr>
<tr>
<td>Infrastructure Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power</td>
<td>8,173 (7,009)</td>
<td>10,770</td>
<td>9,112</td>
<td>10.3%</td>
</tr>
<tr>
<td>Transport</td>
<td>3,257 (2,794)</td>
<td>4,681</td>
<td>3,960</td>
<td>4.5%</td>
</tr>
<tr>
<td>WASH</td>
<td>1,604 (1,375)</td>
<td>2,886</td>
<td>2,442</td>
<td>2.8%</td>
</tr>
<tr>
<td>Total</td>
<td>53,318 (45,727)</td>
<td>104,309</td>
<td>88,248</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Limited state capacity.** Since 2003, Iraq has had little institutional capacity to absorb the enormous sums of reconstruction funds, and donors have paid little attention to the absorptive capacity of line ministries. As a result, governance performance has been low, and the government has been unable to provide basic services as expected, or equally between provinces. For example, electricity generation capacity took eight years to reach its original target.

**Inadequate security and periodic violence.** The waves of violence that have affected Iraq since 2003 are in part because of growing societal divisions and limited state legitimacy, but are also linked to weak and inefficient state institutions, especially in the security sector.

**Environment and natural disasters.** The main environmental risks concern the scarcity of water, due to ageing infrastructure and sharply reduced water levels. In 2018 there were violent protests in Basra over the water crisis there. Water and sanitation facilities have also failed in many schools; according to the Norwegian Refugee Council, over 277,000 children are at risk of water-borne disease. These issues have the potential to exacerbate conflict.

**Underdeveloped and narrow economy.** Post-2003 reconstruction failed to help Iraq diversify its economy away from a dependence on oil and to develop the private sector. Although national poverty levels fell between 2007 and 2012, there was considerable regional variation, with the northern provinces that witnessed the emergence of ISIS, and the south, which has seen regular anti-government protests, faring worse than the rest of the country.

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**Cost and impact of conflict**

**Human capital.** Death, injury and displacement have a major impact on human capital. Iraq Body Count estimates that over 77,000 civilians were killed by violent conflict in Iraq between 2013 and 2018, and over 206,000 since the USA-led invasion in 2003. Following the rise of ISIS in 2014, some 6 million Iraqis – 15 percent of the country’s population – were displaced. Although levels of displacement are still high – UNHCR reported 450,000 IDPs in mid-2020 – they are at their lowest since the crisis began. However, while most of those who were displaced have now returned home, the UN Organization for the Coordination of Humanitarian Affairs (OCHA) estimated that, as of mid-2019, 11 percent of returnees were living in locations that were not adequate, safe or dignified.

**Social capital.** In Iraq, social capital networks are beginning to reform in the wake of years of conflict. However, widespread unemployment, especially among youth, reflects a poor business environment affected by a lack of transparency, poor regulation and other problems, and 40 percent of all jobs originate in the public sector. Exacerbating this, a reduction in labour income by almost 47 percent in regions most impacted by ISIS creates pressure on families and communities to find alternative livelihood strategies. While a significant proportion of the population has left Iraq, it simultaneously hosts many refugees itself, primarily from Syria, and still faces many challenges to restore cohesion in communities with large populations of IDPs.

**Financial capital.** Poverty has risen sharply; after declining from 22.4 percent of the population in 2007 to 18.9 percent
In Iraq, social capital networks are beginning to reform in the wake of years of conflict. However, widespread unemployment, especially among youth, reflects a poor business environment affected by a lack of transparency, poor regulation and other problems.

In 2012, poverty levels stood at 22.5 percent in 2018 for the country as a whole, and 41.5 percent in ISIS-affected areas in the north. There are differences in poverty levels between urban and rural areas: in 2015, 16.5 percent of households nationwide were estimated to be living below the poverty line, but this figure stood at 39 percent in rural areas.

**Physical capital.** Physical capital has been damaged, and, despite the government strategies to rebuild it as expressed in this research, there is a lack of funds to finance the reconstruction. The World Bank's 2018 Damage Needs Assessment (DNA) estimated the overall cost of damage from the conflict with ISIS at $45.7 billion, and the total cost of reconstruction at $88.2 billion. Rebuilding Mosul alone is estimated to require $1 billion, but Iraq's budget in 2019 allocated just $120 million to the entirety of Nineveh province, of which Mosul is the capital. Private international support has been pledged, but not at the levels demanded by the government in Baghdad.

**Private sector and the economy**

Iraq is the most oil-dependent country in the world; in 2015, oil accounted for 58 percent of GDP, 99 percent of exports and more than 90 percent of government revenues. Agriculture remains an important sector, employing around 20 percent of the workforce but accounting for just 4.2 percent of GDP. Industry employs 16 percent of the workforce but contributes just 1 percent of GDP.

In 2003 the Government of Iraq, supported by international donors, put PSD at the centre of its plans for sustained economic recovery. A number of steps were taken that aimed to improve the overall business and regulatory environment, including the creation of advisory commissions and working groups, but progress was largely limited to drafting new laws and regulations. The USA alone spent $1.82 billion developing the non-oil economy, but despite some successful programmes (see Box 25), success at an impact level was limited.

The private sector can play a key role in economic development, but Iraq's private sector has not been able to make a significant contribution. Instead of creating sustainable growth and a successful private sector, oil has been used since 2003 to further expand the public sector. The public sector remains the largest employer, accounting for four fifths of all jobs created between 2007 and 2012. In the 10 years to 2014, the number of public-sector jobs grew from 900,000 to 3 million, with its share of the government budget rising from 7 percent to 27 percent over the same period. The country's new constitution in 2015 was an 'elite pact' that institutionalized a sectarian conception of politics, with government ministries serving as fiefdoms or tools for patronage — for example, for government contracts. As a result, the formal private sector remains marginal, and SMEs account for 99 percent of private businesses. The 'missing middle' is accounted for by the continued dominance of State-owned enterprises, restrictive regulations, a lack of access to finance, the shortage of skilled labour, and inadequate infrastructure.

**Syria**

Before 2011, Syria was a lower-middle-income country with a population of 21 million people. It has witnessed multiple, interlocking sub-state and internationalized conflicts since the country descended into violence following Arab Spring demonstrations in 2011. By 2017, despite several international attempts to resolve the Syrian conflict, over 500,000 people had been killed, and almost half the population had been displaced. The Syrian government appears to have emerged victorious after its eight-year conflict but controls only around 60 percent of the country's territory; violent clashes continue with opposition groups in the north-west of the country.

The Syria at War: Eight Years On Report, UNESCWA, 2020 states the following: “82% of conflict-induced damage was accumulated in seven of the most capital-intensive sectors, namely housing, mining, security, transport, manufacturing, electricity and health. It estimates the value of physical capital destruction at $117.7 billion and the loss in gross domestic product (GDP) at $324.5 billion, thus placing the macroeconomic cost of conflict at about $442.2 billion. The report also cites official data according to which, by the end of 2018, real GDP had lost 54% of its 2010 level” (The Syria at War: Eight Years On Report, UNESCWA, 2020).
Drivers of conflict and fragility

A divided society and limited state legitimacy. Economically marginalized groups have long complained of being ignored by the central government, with tens of thousands of people even denied citizenship until government reforms in 2011. Although the Arab Spring protests and the initial armed uprising were not necessarily sectarian in nature, oppositional identities across society remain important because the country’s horizontal inequalities often fall along ethnic or sectarian lines.

From the 1960s, employment was provided through an oversized public sector and generous social welfare, funded by oil exports and external support from the Soviet Union. Beginning in the 1990s, the Syrian government faced increasing fiscal challenges, and attempted to dismantle some elements of its previous approach — for example, by cutting energy and agricultural subsidies and reducing public-sector employment — and to integrate Syria into the global economy. The costs of this shift fell disproportionately on poor people and on those groups (e.g. small manufacturers) that had benefited most from state protection. Economic liberalization was not accompanied by political reform, however. Set against a backdrop of rising unemployment, and rural–urban migration (driven in part by drought and exacerbated by a cut in agricultural subsidies and attempts to liberalize the agricultural sector), it resulted in growing resentment and anger at the State. The government lost a great deal of support across large parts of its peasant and lower-class constituencies.

Limited state capacity. Low-capacity institutions have compounded many of the problems mentioned above. State policies exacerbated the crisis resulting from the drought between 2006 and 2010, which caused a significant reduction in agricultural production and the country’s food security. Meanwhile, inadequate security institutions pushed popular demonstrations in 2011 into a spiral of violence. State capacity has been severely undermined by years of conflict, with the
government increasingly reliant on loyal non-state actors, and on international backers.86

**Inadequate security and periodic violence.** The Government of Syria’s use of violence against protestors pushed the country’s Arab Spring protests into a cycle of escalating violence. As in Iraq, the violence that began in Syria in 2011 can also be viewed as the latest episode in a longer cycle of fragility.87 The government today is increasingly reliant on non-state actors and loyal militias to provide security at a local level, as the capacity of the national army has disintegrated.88

**Environment and natural disasters.** From 2006 to 2010, Syria experienced its worst drought in hundreds of years, which drove people out of the farming sector and into urban centres.89 Many scholars argue that water scarcity may have been a contributing factor to the outbreak of protest and civil war.90

**Underdeveloped and narrow economy.** In the 1990s and particularly the 2000s the Syrian government’s efforts failed to create a vibrant and independent private sector. Prior to the conflict, there were considerable regional disparities; poverty was more prevalent in rural than urban areas, while areas in the country’s north had higher poverty levels and accounted for more than half of Syria’s poor people.91 Agriculture generated a fifth of overall GDP prior to the conflict, and a large proportion of employment.92 The drought followed a reduction in fuel and food subsidies, drove rural–urban migration and created tensions which contributed to the civil war.93

**Cost and impact of conflict**

**Human capital.** Syria’s human capital has been damaged significantly. The conflict has produced the largest displacement crisis of modern times, affecting around 17.6 million people, including 5.6 million refugees and 6.2 million IDPs.94 The number of people killed in the conflict is unclear; the UN stopped estimates in 2016, when it said that 400,000 people had died, while an opposition monitoring site claimed that by the end of 2018, around 560,000 people had died.95 Over 2 million children (one third of the country’s school population) are out of school, and a further 1.3 million are at risk of dropping out.96

**Social capital.** By every measure, social capital in Syria has also dissipated under pressure from conflict, internal displacement, economic collapse and the break-up of communities and families. With children accounting for 2.5 million Syrian refugees, their vulnerability has continued to increase.97 Child labour, discrimination against girls and young women, and early marriage have been identified as major issues.98 Meanwhile more than 50 percent of the labour force is out of work, rising to 78 percent among young people, adding social pressure and reducing cohesion.99

**Physical capital.** Damage to Syria’s physical capital is severe, particularly in the healthcare and education sectors. The World Bank’s DNA found that about half of all medical facilities in eight governorates had been partially damaged, and 16 percent had been destroyed. Over half (53 percent) of schools have been damaged, and 10 percent destroyed.100 UNICEF has separately estimated that around 40 percent of the school infrastructure has been damaged or destroyed.101

**Financial capital.** The World Bank has estimated that cumulative losses in GDP between 2011 and the end of 2016 stood at $225 billion, approximately four times the size of Syrian GDP in 2010.102 Losses have been particularly high in the oil sector, with a 93 percent decline in its contribution to GDP between 2011 and 2015; agricultural production has also declined significantly because of damage to irrigation, and shortages of labour and inputs.103 There was a 92 percent drop in Syrian exports between 2011 and 2015. The government has tried to reduce public expenditure, but public debt still increased from 30 percent of GDP in 2010 to 150 percent in 2015.104

**Private sector and the economy**

Before 2011, Syria’s economy was the most diversified of the four case study countries. Agriculture generated a fifth of overall GDP and a large proportion of employment.105 Mostly driven by non-oil sectors, GDP grew at an average of 4.3 percent between 2000 and 2010,106 and the country had manageable fiscal deficits and a balanced current account.107 However, this seemingly positive outlook hid a number of serious structural problems, including rising poverty and unemployment, with significant regional disparities.108

Syria’s post-independence development model relied heavily on oil and gas exports and, in particular, strategic rents from the Soviet Union and, subsequently, the Gulf States.109 An initial round of economic liberalization in the 1970s empowered...
a small group of Damascene businessmen, who formed a close alliance with the government. Economic reforms were accelerated after 2000, focusing on deregulation, privatization, the creation of private banks, new laws for FDI, and a reduction in subsidies. The impact was mixed: FDI rose from 0.5 percent of GDP in 2001/02 to 3.2 percent of GDP in 2007, but key privatizations were snapped up by close affiliates of the ruling elite, or family members, resulting in entrenched crony capitalism. SMEs struggled; having previously comprised 99 percent of the private sector — many of them having fewer than five employees — they now faced more intense competition without any assistance to develop the required skills, capacities and infrastructure. Agriculture had accounted for 23 percent of GDP, but this was unsustainable with a cut in subsidies, leaving farmers vulnerable to a major drought starting in 2006. By 2010, 3.7 million people were considered food insecure, prompting massive rural–urban migration.

Reforms disproportionately benefitted elites and foreign investors, while ordinary Syrians felt the impact of inflation and rising living costs. The economy failed to diversify; despite a 50% drop in production in the 10 years to 2011, oil remained Syria’s most important source of foreign exchange, accounting for 20 percent of GDP in the early 2000s. While GDP grew at an average rate of 4.3% per year in real terms between 2000 and 2010, the decade saw significant impoverishment. In 2007, 33 percent of the population were living below the poverty line, up from 14.3 percent in the late 1990s; rural areas were particularly affected, accounting for 62 percent of Syria’s poor people.
Libya

Libya has a population of over 6 million people. The country’s political and economic outlook improved slightly in 2017 but has been volatile since 2008, with a conflict-related drop in GDP between 2012 and 2015 that cut annual output almost in half. Libya has witnessed periodic violence since 2011, when armed non-state actors with international backing overthrew the government of Muammar al-Gaddafi. Victorious rebel groups then splintered into rival camps, and since then the country has seen an ongoing struggle between elites for control of the State and its vast oil wealth. The main split is between the UN-backed Government of National Accord, headed by Prime Minister al-Sarraj in Tripoli, and the House of Representatives (HoR) in the east of the country. Neither government exerts much authority and is instead reliant on an assortment of militias; the HoR and the eastern government are heavily reliant on the Libya National Army, a coalition chaired by Field Marshal Khalifa Haftar. Despite an ongoing UN peace process, Libya remains locked in conflict between the Government of National Accord and the HoR, and their various militias and international backers. A representative of the Government of National Accord was consulted as part of this research.

Drivers of conflict and fragility

Divided society and limited state legitimacy. As the government understands, Libya is a deeply divided country, and Libyans are fragmented by geography, tribe, ideology and history. Conflict since 2011 has reignited the geographical division between the eastern region of Cyrenaica and the western region of Tripolitania. The multitude of armed groups involved are split along various lines, including their initial stance in either supporting or opposing the Gaddafi government, and derive their legitimacy from individual local communities. Because of its highly atomized society, Libya has a limited history of stable, democratic governance, and lacks a central national authority with real or perceived legitimacy; Gaddafi himself faced multiple attempted coups. None of the post-2011 governments have succeeded in establishing credible legitimacy; instead, elites have seen the State as a resource to plunder.

Limited state capacity. Libya has almost no developed national-level institutions. The Libyan Central Bank and the National Oil Company are the only exceptions, although these have themselves been split by the rival governments in the east and west of the country. The absence of institutions is again a legacy of policies under President Gaddafi; decision-making was in the hands of individuals rather than departments. The Government of National Accord itself expressed the view that the formation of capable and accountable government at national and local levels must be a priority.

Inadequate security and periodic violence. Libya lacks centralized institutions capable of providing law and order. Control is instead in the hands of militias, which have fuelled rather than prevented outbreaks of violence, and tribes play a key role in the provision of informal security and justice. A first phase of the civil war lasted from 2014 until a ceasefire in early 2015, before the country was plunged into violence once again.

Underdeveloped and narrow economy. Although Libya was an upper-middle-income country before the civil war, its economy was fragile because of its heavy dependence on oil. Before the conflict, hydrocarbons accounted for 95 percent of exports, 96 percent of government revenues and 65 percent of GDP. As a classic rentier State, Libya had a bloated public sector, which accounted for 85 percent of the labour force, and a small private sector, accounting for just 14 percent of jobs.

Cost and impact of conflict

Human capital. The UN estimates that more than 1.6 million people have been directly affected by fighting since 2011. In 2011, during the first phase of fighting, more than 686,000 Libyans fled abroad, mostly to neighbouring Egypt and Tunisia, but the vast majority soon returned home. A further 500,000 fled their homes for other areas of Libya, and by the end of the year 154,000 people remained internally displaced. According to OCHA, 11 percent of the population (823,000 people) are in need of humanitarian assistance, including 248,000 children, 96,000 IDPs and 165,000 returnees. Around 15 percent of children do not attend school regularly, and refugee and migrant children have little or no access to
education in 65 percent of the country’s districts. As a result, 93,000 children are in urgent need of education support, 57 percent of whom are refugees or migrants. Meanwhile, 554,000 people are in need of healthcare assistance, of whom 54 percent are refugees or migrants.138

Social capital. Over 823,000 people in Libya (a quarter of them children) need direct humanitarian assistance.139 The political situation has affected the labour market and established social and economic networks. Half of youth are unable to work. The predominance of public-sector jobs (85 percent of the formal sector) suggests a low level of resilience to instability and social and economic change.140

Physical capital. Libya’s physical infrastructure was in a poor condition prior to 2011, because of a lack of state investment, and much has since been damaged in the conflict.141 In 2016, the OECD estimated the cost of reconstruction at $200 billion over 10 years.142 Fighting has badly damaged Libya’s oil infrastructure, which is a major reason for the decline in the country’s output.143 Fighting has also damaged the healthcare and education infrastructure: 17.5 percent of the country’s hospitals have been damaged or destroyed, along with 20 percent of primary healthcare facilities and 28 percent of specialized healthcare facilities.144 UNESCO reported that 558 schools had been damaged or destroyed by the conflict.145

Financial capital. Libya’s economy shrank on average by around 14 percent per year between 2013 and 2015. Oil and gas were its primary sources of growth and finance before the conflict, representing 95 percent of its export earnings and

Fighting has badly damaged Libya’s oil infrastructure, which is a major reason for the decline in the country’s output. Fighting has also damaged the healthcare and education.
99 percent of government income. In 2016, oil production fell to 380,000 barrels per day, less than a quarter of pre-2011 levels.146

Private sector and the economy

Under the system that existed from 1969 to 2011, the State provided citizens’ basic needs through a large public sector. However, the private sector remained small, with businesses struggling with access to credit and other regulations. As a result, the public sector accounted for 85 percent of the workforce. The formal private sector provided only 14 percent of jobs and accounted for only 5 percent of GDP. Nearly all private enterprises (95 percent) were SMEs, which typically operated in the informal economy, contributing only 4 percent to GDP.147 During this time period, Libya failed to develop stable and efficient centralized institutions, with the partial exceptions of the National Oil Company and the Libyan Central Bank.148

As was the case in Syria, the Libyan economy exhibited superficial indicators of modest success in the 2000s, while hiding a number of major structural issues. Unemployment stood at 13.5 percent, rising to 25–30 percent among young people, while the State was unable to reform a widespread subsidy system.149 Considerable challenges to growth persist, such as the continued dependence on oil, the large public sector, the poor environment for development of the private sector and SMEs, burdensome regulations and administrative procedures, corruption, an underdeveloped financial sector, and a mismatch between the education system and the skills required for a modern economy.150

As in Iraq, the authorities have used the country’s vast oil wealth to support a bloated public sector, rather than create a viable private sector; in 2012, more money was being spent on government salaries and subsidies than in the Gaddafi era.151 Due to turmoil in the region from 2014, oil production fell, and with it GDP. By 2016, GDP was almost a third below its pre-war levels, although it has since recovered, with growth of 7.8 percent projected for 2018.152

Looking to the future, Libya is likely to face continued problems in its efforts to diversify its economy to secure stable long-term growth. One major challenge, which the government acknowledges as important, will be to create sufficient jobs for an increasingly young population; almost half (44 percent) of Libya’s population are under 24 years old,153 and more than a quarter are under 15.154 Already high in the Gaddafi era, youth unemployment has reached 48 percent.155 However, there are also opportunities that the Libyan authorities can look to exploit, including tourism, agriculture and renewable energy.156
Yemen

Yemen has been trapped in a cycle of violence and fragility since the formation of North Yemen in the 1960s, of which the current conflict is the latest iteration. Despite an ongoing UN-led peace initiative, a negotiated settlement will be complex and fraught. The warring Houthi and the internationally recognized government forces agreed to a ceasefire in December 2018 to prevent a fight for the major port city of Hodeidah, but it is not clear if this can develop into a wider peace process.

**Drivers of conflict and fragility**

**Divided society and limited state legitimacy.** Yemen is deeply divided along regional, tribal and sectarian lines, and has only existed as a single, unified State since 1990. In the decade or so before the 2011 Arab Spring protests, inequality was growing in the country. Since 2011, the conflict has taken on an increasingly sectarian nature. The Yemeni State has been unable to address popular anger and frustration at political marginalization and economic disenfranchisement since the 1960s, which has become the root cause of conflict. Pre-conflict northern Zaydis and southerners had grown increasingly angry at what they saw as their political exclusion. Ordinary Yemenis have grown tired of a deeply entrenched patronage system.

**Limited state capacity.** As in Libya, Yemen lacks effective central state institutions. Even prior to the Arab Spring protests in 2011, or the beginning of the civil war in 2015, state institutions were largely ineffective outside the main cities, and largely distrusted. As a result, alternative systems of authority developed, including the role of tribes in many areas.

**Inadequate security and periodic violence.** The ongoing fighting is the latest instalment in a cycle of violence that has affected Yemen for decades. Southern secessionists fought a civil war against the central government in 1994, following the unification of North and South Yemen in 1990, and the Houthi movement did the same in a series of conflicts beginning in 2004.

**Environment and natural disasters.** Yemen is suffering from a worsening water crisis that is causing socio-economic and environmental damage, including falling agricultural productivity, reduced food security, resource conflict, land degradation and livelihood vulnerability.

**Underdeveloped and narrow economy.** The poorest and least developed of the four case study countries, Yemen was classified as a lower-middle-income country before the conflict, in 138th place in the United Nations Development Programme (UNDP) rankings for extreme poverty. Yemen faced serious economic problems, characterized by a dependence on hydrocarbons, with oil and gas accounting for 90 percent of exports, 70–80 percent of government revenues and most FDI. The government was either unwilling or unable to diversify the economy and develop a strong and independent private sector, with a network of elites successfully blocking reform efforts.

**Cost and impact of conflict**

**Human capital.** Disturbances in Yemen have led to a loss of human capital, a facet of which the recognized government is
acutely aware. Since 2015, some 233,000 people are believed to have died either directly or indirectly as a result of the conflict, 60 percent of whom are children under the age of five.\(^{168}\) Even if the conflict were to end in 2022, human development in the country will have been set back by 21 years.\(^{169}\) As of early 2019, Yemen was home to some 3.65 million IDPs.\(^{170}\) Hunger, poverty and sickness have had an even wider impact than on the three other case study countries; half of the Yemeni population is classed as being in the crisis phase of the famine early warning system, and malnutrition accounts for 45 percent of deaths of children under five. An estimated 2,500 schools are currently out of use, and there has been a 20 percent increase in the number of children not enrolled in schools.\(^{171}\)

The “Assessing the Impact of Conflict on Human Development in Yemen on Development in Yemen report” presents an approach to understanding the impact of conflict in Yemen across multiple pathways of human development. The report assesses this impact by calibrating the International Futures (IFs) model and using it to create four alternative scenarios. The scenarios reflect three potential pathway of conflict development (ending in 2019, 2022 and 2030) viz-a-viz a parallel scenario pathway in which conflict is assumed not to.

### Table 2: Summary of Results, Reporting Human Development Indicators in the Last Year of the Conflict According to Each Scenario.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Last year of conflict</th>
<th>2014</th>
<th>2019</th>
<th>2022</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct conflict deaths (cumulative difference)</td>
<td>Conflict</td>
<td>102,000</td>
<td>166,000</td>
<td>296,000</td>
<td></td>
</tr>
<tr>
<td>Indirect conflict deaths (cumulative difference)</td>
<td>Conflict</td>
<td>131,000</td>
<td>316,000</td>
<td>1,484,000</td>
<td></td>
</tr>
<tr>
<td>GDP per capita (PPP) thousand US</td>
<td>No Conflict</td>
<td>3.8</td>
<td>4.0</td>
<td>4.3</td>
<td>5.9</td>
</tr>
<tr>
<td></td>
<td>Conflict</td>
<td>3.8</td>
<td>2.0</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Extreme poverty* percent of population</td>
<td>No Conflict</td>
<td>18.8</td>
<td>18.7</td>
<td>15.4</td>
<td>6.6</td>
</tr>
<tr>
<td></td>
<td>Conflict</td>
<td>18.8</td>
<td>58.3</td>
<td>64.8</td>
<td>77.6</td>
</tr>
<tr>
<td>Infant mortality deaths per 1,000 births</td>
<td>No Conflict</td>
<td>46.3</td>
<td>36.7</td>
<td>32.2</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td>Conflict</td>
<td>46.3</td>
<td>69.6</td>
<td>81.5</td>
<td>136.6</td>
</tr>
<tr>
<td>Malnourished children percent of children</td>
<td>No Conflict</td>
<td>42.1</td>
<td>36.5</td>
<td>33.5</td>
<td>24.6</td>
</tr>
<tr>
<td></td>
<td>Conflict</td>
<td>42.1</td>
<td>50.5</td>
<td>57.3</td>
<td>79.5</td>
</tr>
</tbody>
</table>

Gross Domestic Product (GDP) per capita, extreme poverty, and malnourished children 2014 data from World Bank World Development Indicators (WDI); infant mortality 2014 data from UNPD World Population Prospects. *Poverty line of US $1.90 a day.

to have escalated after 2014. These scenarios are then used to estimate the impact of conflict on development across multiple issue areas. Table 2 shows the impact of ending the conflict in 2019, 2022 and 2030 and indicators of development compared with a No Conflict scenario.

**Social capital.** An OCHA assessment found that the worsening circumstances since March 2015 had led to a vast protection crisis. An estimated 18.8 million people in Yemen need humanitarian or protection assistance, including 10.3 million who are in acute need. Millions face risks to their safety and basic rights and are struggling to survive. Social dynamics within communities have altered as a result of the conflict, with greater social polarization and unequal access to social safety nets.

**Physical capital.** The World Bank’s 2016 DNA estimated the cost of damage to infrastructure in Yemen at between $4 billion and $5 billion. Damage to healthcare and educational facilities has been considerable. At least 278 healthcare facilities have been damaged or destroyed, and fewer than half of the country’s healthcare facilities are fully functioning. An estimated 2,500 schools are out of use.

**Financial capital.** The conflict has resulted in an estimated $89 billion loss in economic output and a $2,000 reduction in GDP per capita (at purchasing power parity). GDP returned to growth in 2018, after falling by more than 40 percent between 2014 and 2017. More than 40 percent of Yemeni households are estimated to have lost their primary source of income and consequently suffer from basic food shortages.

**Private sector and the economy**

Prior to 2011, there existed a centralized patronage system, where the economy was “in thrall to a complex, intertwined network of elites that control the oil industry, imports, processing and the packaging and distribution of goods”. Oil underpinned this system, transforming the economy in the 1990s – Yemen’s ‘oil decade’. GDP grew rapidly, and significant investments were made in public services, allowing the country to make progress on various human development indicators. For example, primary school enrolment rose from 51.7 percent in 1990 to 75.3 percent in 2004. Oil was generating 70–80 percent of Yemen’s government revenues and up to 90 percent of its export earnings and foreign exchange reserves. It also facilitated a significant expansion of the State. In 2000, the public sector provided 432,351 jobs, but by the end of 2014 this figure had risen to 1.2 million.

Oil, the dominance of the public sector and the country’s patronage system served as major impediments to the development of an independent private sector.
3.2 Conflict and Forced Displacement in MENA (Refugees, IDPs and Migrants)

In 2020, more than a quarter of the over 80 million refugees and IDPs worldwide have been displaced by conflict in the MENA region. Fighting in Iraq, Syria, Libya and Yemen has forced around 18 million people to flee their homes, almost two thirds of them from Syria alone. Forced displacement is both a symptom and a cause of fragility and can have a major detrimental impact on both migrants and communities alike in terms of human, social, financial and physical capital. Refugees and IDPs typically suffer from significant physical loss (e.g. of property and other assets) and poorer health and education outcomes, which impact both their personal well-being and their ability to contribute productively to the economy. Forced displacement also reflects the transnational dimension of fragility; refugees represent a spillover effect that puts a strain on the already weak economies, infrastructure and services of neighbouring host communities. Social cohesion – in both host communities and communities of origin – suffers from a fraying of communal ties.

Globally, refugee and IDP numbers are at a record high, and people are increasingly being displaced for longer periods of time. This requires creative and sustainable donor approaches to the three so-called ‘durable solutions’ for displaced people: integration into host communities, voluntary return to community of origin, and resettlement. In MENA, host country governments, international donors and NGOs have struggled to cope with the scale and the duration of the forced displacement crisis. This is particularly the case with the Syrian refugee crisis, which, absent a comprehensive and lasting peace settlement in the country, is set to persist for years to come. Donor responses, therefore, not only require significant investments in human capital (e.g. education, health and protection) but must also empower the private sector to create jobs and opportunities for a lasting integration of refugees into host communities.

This chapter provides an assessment of the current displacement crisis in MENA, with a particular focus on Syria, and its impact on the neighbouring host community countries of Jordan and Lebanon, which together have more refugees per capita than anywhere else in the world. The chapter offers a summary of the impact of forced displacement on the well-being of migrants and host communities alike, an overview of the responses of the governments of Jordan and Lebanon, and the challenges faced by Syrian refugees in accessing health, education and jobs in both countries. It also reviews donor responses, and lessons learnt from programmes to support and integrate migrant populations, including from Turkey and from other refugee crises, such as in East Africa, before offering a number of lessons learnt and policy recommendations. Pillars Two and Three of the IsDB’s Fragility and Resilience Strategy are of particular importance in this regard. Investing in prevention (Pillar One) is crucial to ensuring that host countries such as Jordan and Lebanon continue to avoid a descent into violent conflict similar to that of neighbouring Syria. Similarly, transitioning from relief to development (Pillar Two) is essential to deal with the long-term nature of the displacement crisis, and to finding lasting solutions to integration and voluntary return.

How displacement impacts fragility

Refugees and IDPs are “people caught in crisis”, whose empowerment is explicitly referenced in the UN’s SDGs. Doing so is important not only because they are vulnerable groups, but also because it can have a broader impact on achieving SDGs in both communities of origin and host communities. Forced displacement has a deleterious effect on human capital, depleting social, physical and financial capital and affecting not only migrants but also the communities they leave behind and subsequently settle in. People fleeing violent conflict typically suffer significant and immediate losses – for example, of housing and other assets that are either destroyed by war or that they are forced to abandon or sell at a reduced price. Migrants also leave behind jobs and livelihoods, resulting in lost incomes and poverty, and reduced economic growth for the country as a whole. The World Bank estimates that the Syrian conflict has cost 3.2 million jobs in the country, with a
Box 2. Improving access to education for Syrian refugees and IDPs in the Syrian region by providing vocational education for employment to empower a workforce for the reconstruction of the country

**Start date and end date of the project:** 1 August 2018 to 31 July 2022

**Target countries:** Jordan, Lebanon, Kurdistan Region of Iraq (KRG-I), Syria and Turkey

**Final beneficiaries and/or target groups:** Young Syrian refugees and IDPs

As a response to large flows of refugees and IDPs, IsDB and SPARK have developed a four-year comprehensive, innovative and integrated programme aimed at creating pathways for young refugees and IDPs from education to decent employment or starting and growing their own businesses in Lebanon, Jordan, Turkey, Syria and the KRG-I.

Targeting 2,010 young Syrian refugees and IDPs, the programme provides:

- access to quality education for Syrian refugees and IDPs – scholarships for higher educational and vocational degrees, technical diplomas and short courses;
- economic empowerment support – entrepreneurship training, coaching and seed funding to start-ups, soft and technical skills training, internships and job placements; and
- capacity-building of technical and vocational education and training (TVET) institutions and local civil society organizations in the region.

**Quality education:** Since the beginning of the programme, steps have been taken towards becoming an established model for delivering scholarships to refugee and IDP youth in the targeted countries under the quality education component. Of the 1,150 students targeted, 727 have enrolled in 14 higher education and vocational training institutions so far. They have mostly chosen computer science, medical practices, business and finance, marketing and design. In addition, oil drilling and refinery were selected as majors in the KRG-I.

**Economic empowerment:** The objective of this component is to support youth to either establish their own businesses through the entrepreneurship training and support or to prepare them for the labour markets as employees or interns in the MENA region by providing them with the necessary soft and hard skills. The target outcome of this component is to place 460 youth in decent jobs to earn an income or find them internship opportunities and to support 115 to establish their own businesses. SPARK has been working with 10 local partners in the region for this component. The programme has been able to establish 68 businesses for youth and to place 84 youth in jobs and/or internships so far.

**Capacity-building for local organizations:** Through this component the programme provides capacity-building training for partner organizations in the higher education and economic empowerment sectors. A total 17 local organizations have received training:

- 6 educational institutes – psychological first aid, counselling techniques and effective psychosocial support training;
- 4 local partners – project cycle management and proposal development; and
- 7 local partners providing support to start ups and micro-, small and medium-sized enterprises (MSMEs) – training of trainers on support for refugee-owned businesses within the scope of the COVID-19 crisis.

The targets and achievements can be found below:

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<tbody>
<tr>
<td>The capacity of 10 TVET institutions and local non-governmental and civil society organizations built</td>
<td>10</td>
<td>17</td>
<td>0</td>
<td>17</td>
<td>170%</td>
</tr>
<tr>
<td>A total of 1,150 Syrian refugees, and IDPs receive vocational education and training</td>
<td>1,150</td>
<td>727</td>
<td>588</td>
<td>139</td>
<td>63%</td>
</tr>
<tr>
<td>460 students find jobs/internships through job skills training and employment services</td>
<td>460</td>
<td>84</td>
<td>0</td>
<td>84</td>
<td>18%</td>
</tr>
<tr>
<td>115 students establish their own business through entrepreneurship support</td>
<td>115</td>
<td>68</td>
<td>0</td>
<td>68</td>
<td>59%</td>
</tr>
<tr>
<td>Outreach to more than 10,000 youth among Syrian refugees and IDPs through dedicated campaigns</td>
<td>10,000+</td>
<td>37,625</td>
<td>19,644</td>
<td>17,981</td>
<td>376%</td>
</tr>
</tbody>
</table>
loss of over 538,000 jobs per year,\textsuperscript{192} while in Yemen some 600,000 jobs have been lost, primarily in agriculture and services.\textsuperscript{193} Although in many instances forced migration may be the result, rather than the cause, of job losses, it has an undeniable impact on an economy, through the loss of labour, and in particular skilled labour. In Syria, as many as half of the country’s doctors are believed to have fled the country since 2011,\textsuperscript{194} while in Libya, the majority of foreign nationals who comprised the majority of health and education professionals have left.\textsuperscript{195} These skills are extremely hard to replace and, therefore, have a long-term impact on a country’s development trajectory.

Perhaps the most obvious way in which human capital is depleted is the impact of forced displacement on people’s physical, emotional and psychosocial well-being. Migrants are likely to suffer from worse nutrition and communicable diseases due to poor living conditions, and the lack of availability of good-quality food and water.\textsuperscript{196} They may also be affected by trauma, which can manifest itself in a range of mental health issues. In a 2017 study of Syrian refugees in Sweden, 79 percent of the sample group had experienced a death in the family, 60 percent had seen someone kicked, shot at or physically hurt, while 30 percent had personally been kicked, shot at or physically hurt – in total, almost half displayed symptoms of post-traumatic stress disorder (PTSD). Two other studies of Syrian refugees in Turkey and Lebanon estimated the prevalence of PTSD to be around 30 percent.\textsuperscript{197} Meanwhile, a 2016 study found that while acute malnutrition was not a significant problem among Syrian refugees living in Iraq, Jordan and Lebanon, there were high levels of anaemia and diarrhoea among children.\textsuperscript{198} Migrant communities sometimes respond to these challenges with counterproductive coping strategies,\textsuperscript{199} which often disproportionately affect women and children. In 2016, the rate of early marriage among Syrian refugee communities in Jordan and Lebanon, for example, stood at 30 percent and 20 percent, respectively.\textsuperscript{200}

Finally, forced migration can lead to reduced social cohesion, in both migrants’ home and host communities.\textsuperscript{201} The multi-ethnic and sectarian make-up of many Iraqi and Syrian communities has been irrevocably changed by violent conflict, with groups that have left unlikely to return. The impact on host communities is equally stark. Syria’s Idlib province – the last holdout of the country’s armed opposition – has become a repository for IDPs; Idlib’s pre-war population of 1.5 million has doubled as IDPs from communities all over Syria have arrived.

**Overview of displacement in MENA**

The conflicts in Iraq, Libya, Syria and Yemen account for approximately 18 million forcibly displaced people living in the MENA region today. Syria has had the most significant impact, but Iraq and Yemen have also witnessed considerable displacement.

**MENA refugees, IDPs and hosting countries**

Jordan and Lebanon have – after Turkey – taken on the largest share of refugees fleeing the conflict in Syria.\textsuperscript{202} As of February 2020, officially registered refugees totalled 910,256 in Lebanon and 656,103 in Jordan, although the two governments claim the real numbers are far higher (an additional 500,000 people in Lebanon and 643,000 in Jordan). Even prior to the violent conflict that followed the 2011 Arab Spring protests, the MENA region was home to significant refugee populations, and, like today, Jordan and Lebanon played a disproportionately large role as host countries. Before 2011, Palestinian refugees from the 1948 war with Israel accounted for approximately 50 percent and 10 percent of the countries’ respective populations, while hundreds of thousands of refugees fleeing violence in Iraq and Sudan in the early 2000s had also taken up residence.\textsuperscript{203} As a result, the two countries have the highest number of refugees per capita of anywhere in the world (164 per 1,000 inhabitants in Lebanon, and 71 per 1,000 in Jordan).\textsuperscript{204}

To a large extent, it is the two countries’ historical experience of past refugee movements that has shaped their response...
Even prior to the violent conflict that followed the 2011 Arab Spring protests, the MENA region was home to significant refugee populations, and, like today, Jordan and Lebanon played a disproportionately large role as host countries.

Box 3. Overview of the forced displacement crisis in Iraq, Libya, Syria and Yemen

**Syria:** Described by UN High Commissioner for Refugees Filippo Grandi as "the biggest humanitarian and refugee crisis of our time", the Syrian conflict has displaced more than half the country’s pre-war population.206
- 5.55 million registered refugees living across MENA (90 percent living in Turkey, Jordan and Lebanon)
- 6.6 million IDPs, including 1.65 million people displaced in 2018 alone.
- Massive loss of human capital – for example, 50 percent of Syria’s doctors are believed to have left the country.206

**Yemen** accounts for the second largest number of forcibly displaced people after Syria. Because of the country’s isolated geography, they are overwhelmingly IDPs.
- 3.65 million IDPs. The central governorate of Marib accounts for more than 20 percent of all IDPs (770,000), followed by Taiz governorate to the south-west, with 11 percent of the total.207
- 166,658 refugees fled Yemen by late 2015 (including non-Yemeni nationals), mostly to the Gulf and the Horn of Africa (Djibouti, Ethiopia, Somalia and Sudan).208
- Hosts over 282,000 refugees and asylum-seekers, 90 percent of whom have fled conflict in Somalia.

**Iraq:** At the peak of the fighting against ISIS, some 6 million Iraqis (15 percent of the country’s population) had been displaced.209
- 450,000 IDPs as of May 2020, the lowest number since the ISIS crisis began
- Some regions face a heavier burden. In 2019, the Kurdistan region hosted 1.5 million migrants, and one in every four people was either a refugee or an IDP.
- In 2019, 11 percent of returnees were in locations where living conditions were inadequate, unsafe or undignified, according to OCHA.210
- 257,000 Iraqi refugees are registered with UNHCR in neighbouring countries, over a quarter (67,000) of whom live in Jordan, with 14,000 in Lebanon and an additional 32,000 unregistered refugees living in camps in north-east Syria.

**Libya:** At the height of the country’s civil war in 2011, more than 686,000 Libyans fled abroad, mostly to neighbouring Egypt and Tunisia, although most have since returned.211
- 373,709 IDPs as of February 2020. From 2016 to 2018, 403,978 IDPs and refugees returned home.
- Libya hosts over 48,000 refugees and asylum-seekers, mostly from sub-Saharan Africa; according to UNHCR, more than 50 percent of people fleeing to Libya are looking for jobs.

**Source:** All figures from UNHCR unless otherwise specified.

Even prior to the violent conflict that followed the 2011 Arab Spring protests, the MENA region was home to significant refugee populations, and, like today, Jordan and Lebanon played a disproportionately large role as host countries.

to the Syrian migrant crisis since 2011. In Lebanon, where a fragile political system was established as a compromise following the country’s civil war (1975–1990), there have been fears that a large influx of refugees would upset the country’s political equilibrium.212 This has evoked memories of the Palestinian refugees who fled to Lebanon in 1948, where they have established themselves as a permanent community and became an important factor in the dynamics of the civil war.

A 2017 World Bank report suggested that refugees in MENA face four interlinked crises: limited or no access to healthcare, education, jobs and livelihoods (including civil, social and economic rights).213 In both countries, while most Syrian refugees ultimately seek to return to their homes, few imagine this will be possible in the short term.214
Box 4. Summary of Syrian refugees in Lebanon and Jordan

Lebanon hosts 910,256 officially registered refugees (government figures suggest 500,000 more), including:
- 488,000 children (aged 3–18 years), of whom 221,000 (45 percent) are in formal education;\(^{216}\)
- 70 percent of households living under the poverty line of $3.84 per day per person;\(^{216}\)
- 56 percent of men and 7.6 percent of women in work, but fewer than 2,000 Syrians have official work permits;\(^{217}\) and
- 19 percent female-headed households.\(^{218}\)
- The World Bank estimates that refugees added $1.1 billion to government costs between 2012 and 2014.\(^{219}\)

Jordan hosts 656,103 refugees (government figures suggest another 643,000), including:
- in 2018, 232,500 school-aged children, of whom 145,000 (62 percent) were enrolled in formal education;\(^{220}\)
- 86 percent of refugees living under the poverty line of $95 per person per month;\(^{221}\)
- nearly 44 percent of the 196,460-strong Syrian labour force estimated to be unemployed;\(^{222}\) and
- 30 percent female-headed households, but very low female participation in the labour force.\(^{223}\)
- The government’s estimated cost of $11 billion since 2011 – $2.5 billion per year according to the World Bank.\(^{224}\)

Source: All statistics from UNHCR unless otherwise stated.

Host government policies

Against this background, the governments of Jordan and Lebanon have made significant efforts to accommodate refugees from MENA – primarily Syria – while taking steps to ensure that they do not become a permanent community.\(^{225}\)

Neither country is a signatory to the 1951 UN Convention Relating to the Status of Refugees, which obliges host countries to uphold the rights of refugees to freedom of movement, protection, justice, work and – critically – non-refoulement (forcible return).\(^{226}\)

This has resulted in a flexible and at times confusing approach to dealing with refugees. In the early years of the crisis, both governments adopted what was essentially an ‘open door’ policy. In Lebanon, this came to an end in 2014, when the government pressured UNHCR to stop registering new refugees and introduced new visa and residency requirements. Under this system, Syrians not already registered needed to secure a Lebanese ‘sponsor’; both categories of refugees are required to renew their residency permits annually basis, at a cost of $200. In Jordan, the process has been far simpler, although beginning in 2012 the authorities periodically denied entry to certain groups. In 2015, new restrictions were placed on refugees obtaining service cards, without which they cannot access public health care or education for their children.\(^{227}\)
impossible amount for many households. Despite the still required to cover 25 percent of treatment costs – an been heavily subsidized by UNHCR, although Syrians are increased pressure, the Lebanese healthcare system has healthcare in Jordan has gone through NGOs funding parallel \textcolor{red}{structures, which has undermined the national health system made this unsustainable. Much international donor support to healthcare in Jordan has gone through NGOs funding parallel \textcolor{red}{structures, which has undermined the national health system and is unsustainable.} Education

Even more than in the healthcare sector, the two governments have made concerted efforts to improve Syrians’ access to education.232 With the support of IsDB, World Bank, the EU and other international donors, the Lebanese government has implemented the Reaching All Children with Education (RACE) programme, which has the ambitious aim of getting 440,000 refugee children into public schools by the 2020/21 academic year.233 The programme has achieved some significant progress: by 2017, 70 percent of refugee children aged 6–14 were enrolled in school.234 However, school enrolment and attendance rates are poor among older children,235 and dropout rates are high among Syrian schoolchildren of all ages. RACE has suffered from a shortfall in donor funding, and as many as 29,000 students who were enrolled in second-shift schools in the 2018/19 school year failed to turn up to school the following year. This is in part believed to be because of demand-side factors, such as the cost of transport to and from school, and the opportunity cost of putting children in education rather than employment.236 As a result, some initiatives that tackle demand-side problems have been piloted.

Public schools are also free for Syrian children in Jordan, but access has become more difficult since the authorities introduced a requirement for children to produce valid service cards and asylum-seeker certificates.237 Overcrowding in public schools has become a major problem; the Government of Jordan has responded by introducing a double-shift school programme and opening an additional 98 schools, but these have often resulted in substandard education for children.238 By 2017, 70 percent of school-aged children aged 6–14 were enrolled in formal education,239 but, as in Lebanon, higher numbers of older children are not attending school. In both countries, 45 percent of school-aged children are out of education, predominantly at the secondary school level. As in Lebanon, in Jordan this is in large part believed to be the result of demand-side factors, which pressure children enrolled in schools to drop out.240 For example, 68 percent of Syrian children who are not in school in Jordan used to be enrolled in formal education.241 Some demand-side programmes have been implemented as a result.

Jobs and livelihoods

Syrians in both countries have mostly been able to find short- term, poorly paid work in the informal sector. Lebanon’s initial laissez-faire policy allowed large numbers of Syrians to find work, but this has been complicated by the updated registration process. Since 2014, only refugees who have a Lebanese sponsor are legally allowed to work, and then only in agriculture, construction or cleaning.242 As of 2018, 56 percent of male Syrian refugees in Lebanon (and just 7.6 percent of

**Box 5. Hajati: Cash transfers to support vulnerable refugee and host-community families**

Similar to the NLG-Min Ilia programme in Lebanon, UNICEF launched a cash transfer programme in Jordan in 2017 to encourage school enrolment and reduce dropouts. The Hajati programme provides a monthly transfer of 20 Jordanian dinar ($28) per month to families, and adopts a vulnerability approach, assisting beneficiaries based on need, regardless of nationality. As of January 2018, the programme was supporting 53,333 children from 19,609 families, 86 percent of which were Syrian, and 11 percent Jordanian, together with smaller numbers of Iraqi, Egyptian and Yemeni families. Families eligible for support from Hajati have typically fled violent conflict (87 percent of families), and have three school-aged children or more (48 percent). UNICEF claims the programme resulted in 3,421 out-of-school children returning to formal education.

female Syrian refugees) were working. Fifty percent worked in either construction or agriculture, 92 percent without legal contracts, and 56 percent on a weekly or daily basis.243

In Jordan, Syrian workers initially filled a number of important seasonal labour gaps, especially in agriculture, and a requirement to obtain a work permit was only weakly enforced.344 Beginning in 2013, the authorities began to crack down on informal work, because of popular concerns about the impact of Syrians on the economy. Work permits were difficult and costly to obtain; by 2015, only 10 percent of Syrians working in Jordan had work permits. 345 Syrians are also not permitted to work in certain professions, including as doctors, engineers and teachers.246 As of mid-2017, the WANA Institute estimated the Syrian labour force at 196,460 people, nearly 44 percent of whom were unemployed.247

As of 2018, 56% of male Syrian refugees in Lebanon (and just 7.6% of female Syrian refugees) were working. Fifty percent worked in either construction or agriculture, 92% without legal contracts, and 56% on a weekly or daily basis.

A 2018 study by CARE suggested that a majority of Syrians in Jordan had noticed a decrease in aid, resulting from cuts to the international humanitarian response and a rising cost of living, and that many had slipped into debt.248 As of 2015, some 70 percent of Syrian households in Lebanon and 86 percent in Jordan were estimated to be living below the poverty line.249 Syrians are often responding with counterproductive coping strategies. As of 2016, rates of child marriage had reached 20 percent in Lebanon and 30 percent in Jordan.250 In Jordan, child employment stands at 3 percent among Syrian refugees, compared to 0.5 percent among Jordanian children.251 To remedy this situation, the international community and the government agreed on the Jordan Compact in 2016 (see Box 5), with the authorities granting work permits to an additional

**Box 6. No Lost Generation: Using cash transfers to boost school attendance among refugee children**

The Government of Lebanon has taken a number of steps to ensure that Syrian refugee children have access to education, including waiving fees, initiating double-shift teaching and launching an accelerated learning programme. However, roughly half of Syrian primary school-aged children did not attend class in the 2015/16 academic year. A number of demand-side constraints dissuade families from sending their children to school, including high transport costs and the opportunity cost of putting children into employment.

As a result, the government, supported by UNICEF and the World Food Programme, piloted a cash transfer programme, known as No Lost Generation (NLG) and by its Arabic name of Min Ila (‘from to’). The scheme provided a basic $20 monthly cash transfer to Syrian children aged 5–14 who were enrolled in double-shift schools in the Mount Lebanon and Akkar governorates. The idea was to cover the indirect costs of going to school, such as transportation and clothing. Children aged 10 and over were given an additional $45 per month, in recognition of the opportunity costs of entering employment for this age group.

An impact evaluation showed that, at its midpoint, the programme had had a limited effect on school enrolment but a substantial impact on school attendance among children already enrolled, which was 20 percent higher than among the control group. However, the programme had no effect on either enrolment or attendance at endline. The evaluation suggested that this may have been because, while demand for schooling went up among refugee communities, supply could not keep pace, with the government unable to provide sufficient high-quality teaching. The programme also had a number of impacts on children in terms of health, food consumption and subjective well-being.

**Source:** Adapted from UNICEF-Air (2018) “Min Ila” Cash Transfer Program for Displaced Syrian Children in Lebanon’.

200,000 Syrians who would be employed in Special Economic Zones (SEZs), in return for greater international financial support.

**Impact on host communities**

The rapid arrival of over 1.5 million refugees has put significant pressure on Jordan’s and Lebanon’s already strained economies, infrastructure and public services. In 2010, Lebanon’s GDP grew by 8 percent, but by 2013 growth had fallen to 1.5 percent and it has remained stagnant ever since.\(^{252}\) The World Bank estimated that the refugee influx added $1.1 billion to government costs between 2012 and 2014. Meanwhile, Jordan’s economy was suffering from slow growth and high unemployment even before the start of the Syrian conflict.\(^{253}\) Growth has dropped to an average of 2 percent over the past three years, from an average of 2.7 percent between 2010 and 2016, while total foreign debt reached $35 billion in 2016, from $19 billion in 2011.\(^ {254}\) The government claims the cost of hosting Syrian refugees has totalled $11 billion since 2011, a figure that tallies with the World Bank’s own estimate of an annual cost of $2.5 billion.\(^ {255}\)

**Box 7. Peacebuilding between IDPs and host communities in Lebanon**

Following the 2006 war between Israel and the Lebanese group Hezbollah, UNHCR and the Intersos NGO worked with rural communities in Lebanon to provide quick-impact projects with the aim of encouraging IDP returns. In each location, the programme worked with community representatives to assess war damage and priorities, and then formed local committees comprising different ethnic groups and including IDPs. The committees were tasked with developing quick-impact projects to rebuild essential infrastructure and address the needs of vulnerable groups, both IDPs and host families alike, and in many instances identified that the most vulnerable were in fact members of the host community.

In addition to infrastructure repairs, the programme provided temporary food provisions for elderly people, assistance to women’s cooperatives producing olive oil, and support to community leaders to resolve local disputes. UNHCR found that as well as meeting its aim of restoring essential infrastructure and supporting vulnerable groups, the programme also had an important peacebuilding effect. Programme activities facilitated confidence-building measures between the different ethnic groups and between IDP and host communities that participated in the local committees.


In both countries, popular concerns that Syrians are ‘stealing’ local jobs have led to protests, sporadic violence against refugees and demands that Syrians return home. As of 2013, the International Labour Organization (ILO) estimated that Syrians accounted for almost 14 percent of Lebanon’s labour market,\(^{256}\) while based on the ILO’s 2017 figures, Syrians likely account for at least 13 percent of Jordan’s economically active population.\(^ {257}\) Syrian labour has not had a significant impact on the wage levels of Jordanian workers in the formal sector, but because of the dominance of the informal sector – which accounts for up to 50 percent of jobs in both countries\(^{258}\) – it has driven down wages for poorer Jordanian and Lebanese workers.\(^ {259}\) In Lebanon, Syrian refugees tend to be concentrated in historically poor and deprived areas, which has exacerbated the employment situation because of the increased labour supply.\(^ {260}\) In Jordan, unemployment rose from 11.4 percent in early 2012 to 16 percent in late 2016.\(^ {261}\)
Box 8. Integrating Syrian refugees: The experience of Turkey

As of September 2019, there were over 3.6 million officially registered Syrian refugees living in Turkey. While Jordan and Lebanon host the largest number of refugees per capita globally, Turkey has the largest total number of refugees in the world. The Government of Turkey’s efforts to respond to the displacement crisis have been praised, and many Syrians see Turkey as the best regional destination as they flee violence at home, because of the relatively high levels of government assistance and economic opportunities, and lower levels of discrimination than elsewhere. But many Syrians in Turkey remain in limbo – unable to gain access to the formal job market and faced with increasingly restrictive policies and host community resentment. Moreover, in 2018 and 2019 a government policy to repatriate hundreds of thousands, if not millions, of Syrians into the north-west of the country or an established ‘safe zone’ along the Turkey–Syria border has led to cases of detention and forced repatriation, generating widespread fear among refugee populations.

As in Jordan and Lebanon, Syrians fleeing to Turkey were initially met with a de facto ‘open door’ policy. This was subsequently formalized by granting refugees a temporary protection card, or kimlik, which gave access to free public education, healthcare and other services. From 2015 onwards, as it became clear that the displacement crisis would not be resolved in the short term, and faced with growing public resentment, the government put in place additional restrictions. These include, for example, restrictions on the ability of refugees to travel outside the province where they obtained their kimlik, while there have been sporadic episodes of refugees without a kimlik being forcibly returned to Syria.

Unlike in Jordan and Lebanon, a major obstacle to refugee integration in Turkey is the language barrier; the government has taken important steps in this regard, including establishing temporary education centres where a modified Syrian curriculum is taught in Arabic. This boosted enrolment among Syrian children from 30 percent in 2016 to 62 percent by 2018, although temporary education centres are now being phased out to encourage the integration of Syrian children into the mainstream education system. Other policies include the Conditional Cash Transfer for Education programme – implemented through the government, the Turkish Red Crescent and UNICEF and funded by the EU, Norway and the USA – which provides monthly cash payments to families to encourage them to send their children to school. In the health sector meanwhile, although Syrians enjoy free access to public institutions, the language barrier has again proved a major obstacle. In response, the government has established a number of migrant health centres, staffed by Arabic-speaking Syrian health professionals.

But it is perhaps employment and livelihoods that represent the biggest obstacle to Syrian integration in Turkey. Since an agreement between the EU and Turkey in 2016, Syrians now receive modest cash assistance from the State, but because of difficulties in obtaining a work permit, most are also forced to seek employment in the informal sector. Between 500,000 and 1 million Syrians are estimated to be working in Turkey, but only 65,000 work permits had been issued by the end of 2018. Obstacles include a 10 percent quota on Syrians working in any given enterprise, and a lack of incentives for both employers and workers to formalize working arrangements – Syrian families, for example, will lose access to their monthly cash payments from the State if even only one member is in formal employment.

According to Turkish media reports, Syrians have established more than 10,000 private businesses since 2011, providing livelihoods to 7 percent of the total number of Syrian refugees in the country. Meanwhile a 2019 report by the Turkish Institute of Statistics emphasized that Syrian enterprises had a positive impact on the Turkish economy, including increasing employment opportunities for domestic workers. A number of pathways to improve the integration of Syrian refugees have been proposed, primarily through greater access to employment via the private sector. One idea is to capitalize on Syrian workers’ comparative advantage in the agricultural sector, which already employs thousands of Syrians in temporary, seasonal work. Turkish businesses could be provided with greater incentives to provide formal employment opportunities to Syrians, while a Turkish version of the Jordan Compact could see the creation of an SEZ in the area near to the Syrian border, where large numbers of refugees are concentrated. As part of this, the EU could increase its quotas on Turkish agricultural products that are exempt from import duties.
Donor and regional development actors' responses

The international community's response to the Syrian migrant crisis has, to a large extent, been focused on providing humanitarian assistance and motivated by a desire to stem the flow of refugees to Europe. But 90 percent of Syrian refugees in MENA are believed to be living outside camps, and the prolonged nature of the crisis has, since 2014, led to a growing emphasis on longer-term development solutions. In this regard, the 2016 Jordan Compact was hailed as an important paradigm shift—a long-term development-focused approach that sought to achieve the twin goals of supporting Jordan’s economic growth through the expansion of its manufacturing sector, and improving the well-being of Syrian refugees by integrating them into the formal labour market and education system. The initiative could be expanded to include sectors in which Syrians have a comparative advantage, such as agro-industries, and by the creation of reconstruction hubs within SEZs. Providing work permits to highly skilled Syrian refugees, including healthcare and education professionals, would also help to alleviate some supply-side problems associated with the poor quality of service provision. For example, while Jordan and Lebanon continue to prevent Syrian healthcare professionals from gaining formal employment in their professions, Turkey has taken steps to integrate them into the healthcare system. Syrian doctors and nurses are now able to work in some 99 healthcare clinics across Turkey that specifically target the Syrian refugee community.

Box 9. The Jordan Compact

Early efforts by the Government of Jordan to respond to the Syrian crisis suffered from a lack of funding and made limited progress in integrating refugees. Prompted by an influential article by economists Paul Collier and Alexander Betts, the international community looked to adopt a new approach that would shift the focus from humanitarian aid to long-term investment, job creation and improved education for both Syrians and Jordanians alike.

With the Jordan Compact, announced at the London donors’ conference on Syria in February 2016, the government agreed to support Syrian refugees’ access to the formal labour market by providing 200,000 work permits in specific sectors. In return, the international community pledged $700 million in grants for Jordan over three years, concessional loans of $1.9 billion and support to develop Jordan’s manufacturing sector. The EU offered Jordanian companies tariff-free access to European markets, on condition that they employ a certain proportion of Syrian refugees in 18 SEZs around the country. A further $81.5 million was subsequently pledged to support refugee access to education.

The Jordan Compact was premised on the idea that the Syrian crisis also presented an opportunity to boost Jordan’s economy and lead to improved income and well-being for refugees. It was heralded as a ‘paradigm shift’ that could be replicated in other settings from Ethiopia to Turkey.

Three years later, the evidence suggests that the Jordan Compact has so far yielded mixed results. The pace of issuing work permits has been slower than expected, in part because applicants are still required to have valid Syrians IDs, which many do not, and because many Syrians fear losing their right to resettlement if they apply. Syrians — and women in particular — have also been put off by work in SEZs, because of low pay, poor conditions and limited transport options, while work permits are restricted to sectors that do not necessarily reflect their skills, and there are continued barriers to skilled occupations. Jordanian firms are also disincentivated in many instances from issuing work permits, as this would require them to become legally compliant in an economy that relies heavily on informal labour. The results of improved trade access to EU markets are also disappointing — low levels of additional exports and limited job creation for both Syrians and Jordanians.

Nevertheless, there are reasons to be positive. By the summer of 2018, the government had issued 106,000 work permits to Syrians — over half of its target. The Jordan Compact has also led to significant improvements in refugee children’s access to education; in the 2016/17 academic year, over 40,000 more children were enrolled in schools than in 2014. The Compact has furthermore been described as a ‘game changer’ for Syrians living in Jordan. Further steps need to be taken, however, to ensure its success. Ideas proposed include expanding its focus to sectors in which Syrians have particular skills, such as agro-industries, and using donor funding for education to tackle a number of demand-side problems that continue to limit Syrian enrolment in the school system.
More broadly, there is greater scope for supporting refugees and host communities alike through PSD. PSD can provide a pathway to economic recovery and growth through expanded employment opportunities, private investment and government revenues. It can also have a powerful peacebuilding impact. This applies equally to efforts to integrate migrants into host or home communities. Research suggests, for example, that securing employment opportunities for refugees has a greater impact on integration than factors such as education, language training and vocational skills training. According to the International Finance Corporation, private enterprises engage with and improve the well-being of migrants and host communities in key ways: using technology to improve access to humanitarian assistance, education and financial services; improving and expanding service provision by adapting business models to needs on the ground; providing jobs and job training; integrating refugees into value chains through recruitment; and growing business by selling goods and services specifically geared to refugee communities. While acknowledging that private-sector solutions are so far not supported by empirical evidence, the IFC has also identified a number of promising ideas for supporting refugees, including a Jordanian initiative that provides technical and vocational education and training to Syrian refugees.

A number of smaller donor-funded programmes have sought to expand refugee employment via the private sector. For example, an initiative in Turkey by the UN’s Food and Agriculture Organization looks to build on the fact that many Syrian refugees living in south-east Turkey are from rural backgrounds, have previous experience of working in agriculture in Syria and are often employed in informal, seasonal agricultural work in Turkey. The initiative aims to support rural livelihoods by providing training on agricultural techniques and improving links between the local workforce and private-sector partners to fill employment gaps. It simultaneously seeks to improve social cohesion by training Turkish workers alongside their Syrian counterparts.

Refugees can also be trained on essential skills, such as construction, that will be of value both in the short term to host communities and over the longer term if and when they return to their home countries to support reconstruction efforts. In Lebanon, for example, the UN Industrial Development Organization launched a programme in 2019 to provide construction training to refugees and host communities in the north of the country, an area that struggles with higher levels of poverty and unemployment. In 2016, meanwhile, the ILO launched an initiative to provide plumbing, plastering and painting skills to Syrian and Lebanese construction workers.

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**Box 10. Allowing Syrian health professionals to work in Turkey**

While Syrian health professionals are prevented from working in both Lebanon and Jordan, despite overstretched public health systems, in Turkey a 2016 law has allowed Syrian doctors and nurses to provide healthcare to the refugee community. In an initiative partly funded by the EU, Syrian doctors and nurses receive seven weeks of training by Turkey’s Ministry of Health and the WHO before being authorized to work in the 99 health centres nationwide that cater to the Syrian refugee community. In 2017, some 1,006 doctors, 636 nurses and over 300 translators were in training or had graduated from the scheme. In total, the refugee health centres are expected to employ around 1,500 Syrian staff. The programme is, therefore, providing meaningful employment to highly skilled Syrians and is helping to remove some of the burden placed on Turkey’s public health system by increased demand. It is also providing a service to the country’s 3.6 million Syrian refugees, who, despite generous support from the Turkish government, have faced a number of problems in accessing healthcare, in particular because of the language barrier.

Box 11. Integrating refugees in Uganda: A qualified success

Uganda has long been home to a significant refugee population. In 2000, there were 202,000 officially registered refugees, largely the result of conflicts in neighbouring Rwanda, Burundi and the Democratic Republic of the Congo. This number then swelled to 1.5 million following the outbreak of civil war in South Sudan in 2013, and today Uganda has more refugees than anywhere else in Africa. The government’s policies have been lauded as among the most progressive in the world and cited as examples that MENA countries could look to replicate. For example, refugees enjoy the right to work, land cultivation, free education and freedom of movement, but a number of challenges remain. Many refugees continue to live in difficult conditions, with limited access to basic services. Moreover, some of the claims surrounding refugee integration may have been exaggerated, and rising tension between migrants and host communities threatens the social fabric.

Among the success factors of Uganda’s experience of integrating refugee communities has been the government’s focus on promoting ‘self-reliance’, housing refugees in permanent ‘settlements’ where they can more easily interact with host communities, rather than in camps. Similarly, the decision to grant refugees the right to work and move freely is premised on the idea that this will lead to improved social cohesion, while government policies actively target both refugee and host communities together, to avoid creating local resentment. For example, the 2016 Settlement Transformative Agenda focuses on building sustainable livelihoods for refugees and Ugandan nationals alike, and is integrated into Uganda’s national development agenda. Meanwhile, the Refugee and Host Population Empowerment Framework employs a ‘70–30’ principle, ensuring that at least 30 percent of funds target host community needs. These initiatives are aimed at shifting the government’s response away from a short-term humanitarian focus to a more sustainable longer-term strategy.

Nevertheless, there are concerns over the long-term sustainability of the settlement model, which remains dependent on donor assistance. Integration into the broader community is also hampered by poor infrastructure and transport options in the settlements, which prevent many refugees from accessing external jobs and markets, while the plots of land allocated to refugees are often too small and of insufficient quality to allow individuals to earn a living. Meanwhile, the sheer scale of migration flows into the country in recent years has given rise to host community resentment, amid disappointing levels of economic growth and increased pressure on essential services. By 2016, for example, the government’s total expenditure on the refugee response equated to 46 percent of the national education budget. The lessons of Uganda suggest, therefore, that while policies granting refugees the right to employment, education, free movement and land are important, they are insufficient on their own to ensure successful integration into host communities.
In some cases, donor support has exacerbated conflict between refugees and host communities, with the latter believing they are equally victims of the Syrian crisis. In Lebanon, for example, there has been an increase in aid targeting vulnerable Lebanese households, but this is still limited and has failed to address local animosity. In Jordan, much NGO support to the health sector has gone to unsustainable parallel structures, which undermine the central state health system. As a result, a number of more recent initiatives have shifted their approach and target vulnerable groups regardless of whether they are refugees or from the host community. This mirrors best practice exercised elsewhere, where assistance to migrants is balanced against the needs of local residents, to avoid exacerbating tensions between them. In Uganda, for example, government policies have long adopted a ‘70–30 approach’, whereby 70 percent of assistance targets refugee communities, while 30 percent is reserved to directly address host community needs. A 70–30 ratio is also employed by the Food and Agriculture Organization’s rural livelihoods project in Turkey (see Box 8). Programmes can also include specific peacebuilding aims, to improve links between refugees and host communities.

Box 12. Luminus Education: Supporting refugee employment in Jordan through the private sector

Luminus has been providing technical and vocational education and training to Jordanian youth since 1999, and in 2014 it started to offer half-price tuition to unemployed Syrian refugees in an effort to provide them with the skills needed for employment. To overcome the opportunity cost of choosing education over seeking immediate employment, Syrians were offered part-time teaching hours and a stipend, together with transportation from refugee camps. In a bid to attract more women refugees, Luminus hired counsellors to support students with family and other commitments. It also adjusted its marketing efforts to emphasize the link between its courses and improved employment opportunities, and worked with UNICEF, UNESCO and USAID to reach out to Syrians living in Jordan.

Luminus has raised $37 million to give scholarships to more than 4,500 refugee students, of whom 1,000 had graduated as of April 2019. Between 70 percent and 80 percent of Luminus graduates have gone on to find employment. Luminus’s start-up accelerator, ShamalStart, provides capital and support to entrepreneurs looking to set up their own businesses, and has launched a number of Syrian start-ups.


Prospects for the future

Faced with these obstacles to accessing health, education, and meaningful and stable employment, many Syrians have expressed feeling a sense of discrimination. A 2016 survey by UNHCR in Lebanon found that 63 percent of Syrians interviewed said they felt they were not welcome. A key finding from a recent report by the Carnegie Endowment for International Peace was that many Syrians refugees feel trapped: "They have an overwhelming desire to return to their homes in Syria but believe that is virtually impossible without a stable political transition. At the same time, they believe that constructing meaningful lives in host countries remains equally impossible." Two important conditions for return are, therefore, safety and security.

This is not simply achieved by a cessation of hostilities. After areas of southern Syria returned to central government control in mid-2018, and the subsequent reopening of the main Syria–Jordan border crossing in October, there were expectations that a large number of refugees would return home. However, as of July 2019, only around 20,000 people had crossed back into Syria.
Box 13. Refugee returns in Iraq

Between 2006 and 2008, violent conflict in Iraq created one of the world's fastest-growing displacement crises. By 2007, there were more than 2 million Iraqi refugees living in neighbouring countries – primarily Syria and Jordan – and over 1 million IDPs. Yet even as the intensity of the fighting decreased, significant refugee returns did not occur, defying conventional thinking and the predictions of many analysts.

As of 2015, most refugee returns to Iraq were spontaneous, determined in part by the levels of violence in the country and the living conditions of refugees in exile. Periods of relative security encouraged people to move back, but the cyclical nature of violence in Iraq meant that some of these returns were only temporary. In other cases, individual households decided to return to Iraq after exhausting their resources living abroad, because they had failed to secure long-term visas, or to ensure they could enrol their children in school. But security concerns remained the overarching factor driving people's decision-making – a 2009 survey by UNICEF found that 90 percent of respondents were not planning to return to Iraq, of whom 60 percent said they feared a direct threat to their life, while 30 percent cited concerns over the general security situation.

By contrast, voluntary assisted returns (VAR) – facilitated either by UNHCR or the Government of Iraq – achieved very little success. Although UNHCR did not encourage repatriation, because of ongoing protection and security concerns, it did provide some indirect incentives to returnees, including covering transport costs to Iraq, and the provision of assistance to returnees through 18 Return, Integration and Community Centres. The government, meanwhile, offered financial incentives, including cash payments, free airline tickets, and compensation for damaged property.

A 2015 World Bank report concluded that, in terms of returnee numbers, VAR in Iraq had been a failure. Positive inducements by VAR campaigns, peacebuilding projects and efforts to reconstruct the country’s damaged infrastructure had only a minimal impact, and instead it was “refugees’ own perceptions of protection and security conditions in Iraq […] that are, and will be, the main triggers for return”.

Lessons learnt and implications for programming

The experience of Syrian refugees in Jordan and Lebanon provides a number of lessons that can inform future efforts to support migrant and host communities across MENA.

- **Migrants' access to health, education and jobs face both supply- and demand-side challenges.** As the example of the Lebanese public school system shows, refugees' access to services such as education and health is constrained by both supply-side issues – such as the lack of qualified professional staff, insufficient budgets, and limited and dilapidated infrastructure – and demand-side issues. The latter category includes the opportunity cost for migrants of accessing education and health services, including high transport costs to schools and the incentive to put children into employment. The first iteration of Jordan's RACE programme failed to meet its ambitious objectives for enrolment of refugee children, prompting a greater focus on addressing demand-side challenges. The No Lost Generation-Min Ilia and Hajati programmes appear to have shown some encouraging results for a cash transfer approach to students, to cover the costs associated with attending school. However, more evidence is needed to see if such initiatives can be scaled up.

- **Migrants present economic opportunities for host countries but can also have a negative impact on state resources, low-income host families and social cohesion.** The Syrian crisis has resulted in several hundred thousand more people joining the labour market in both Jordan and Lebanon, which has provided business owners with a large pool of cheap labour but has also served to depress wages in the informal sector. Rising unemployment among low-income Jordanian and Lebanese households has fuelled animosity towards the Syrian refugee population, as has the focus of most donor-funded programmes on refugees rather than host communities as beneficiaries. UNICEF’s Hajati programme – which provides cash transfers to children registered in public schools – suggests the value of a vulnerability-based approach that targets vulnerable households regardless of nationality.

- **There is an important role for the private sector, but PSD alone is not a panacea.** A significant Syrian refugee community is likely to remain in Jordan and Lebanon for years to come, and the private sector can contribute to a more long-term and sustainable approach, particularly amid funding cuts to the humanitarian response. While it has not yet yielded some of the more optimistic predictions that accompanied its announcement in 2016, the Jordan Compact provides an innovative model that has integrated more than 100,000 Syrians into the formal labour market and could be expanded into other sectors.

- **Support to refugees and migrant populations should be mainstreamed into broader reconstruction and recovery efforts.** The Jordan Compact provides a model that explicitly links the long-term economic development of host countries with improved well-being for migrant populations. The model could be expanded to other SEZs, and in particular to special hubs within zones that target the reconstruction of physical infrastructure. More generally, by including migrant populations in human capital and PSD interventions, donors can support improved social capital and social cohesion by building bonds and linkages between communities.

- **The return of migrants is a political issue that will require political solutions.** Refugee returns to Syria to date have been slow. Although return is the ultimate objective for many individuals, it is at present impossible because of safety and security concerns which are unlikely to be assuaged in the absence of a comprehensive political settlement.
3.3 The COVID-19 Pandemic in MENA

This section highlights the spread and impact of COVID-19 on IsDB MCs in the MENA region. It will specifically shed light on negative consequences of the pandemic as a critical driver of fragility exacerbating the volatile situations of the MCs affected by human-induced and natural disasters.

The world has witnessed the spread of a global pandemic that has affected every country. As of 14 October 2020, the total global number of confirmed cases was 38,129,806 with 1,086,141 deaths. The number of confirmed cases in the 57 IsDB MCs stood at 4,275,901 of which 2,341,075 were in MCs in MENA, with the number of deaths reaching around 104,255.305 The pandemic has also had significant negative economic, financial and social impacts.

The spread of the virus in MENA varies from one country to another. Iran has the highest number of confirmed cases (508,389) and deaths (29,070), followed by Iraq and Saudi Arabia, which have 409,358 and 340,089 confirmed cases and 9,970 and 5,087 deaths, respectively. The United Arab Emirates has recorded 108,608 confirmed cases and 448 deaths, while Egypt has recorded 104,787 confirmed cases and 6,071 deaths. Kuwait has reported 112,737 confirmed cases and a total of 672 deaths.

The impact of the pandemic on the MENA region

As highlighted by IsDB’s MENA Recovery and Resilience Report (2020), MCs such as Yemen, Iraq, Libya and Palestine, and Syrian refugees and hosting communities are facing compounded crises, including protracted conflict, fragility, natural disasters (including floods), and inadequate institutions and economic systems. By and large, these countries are poorly prepared to prevent, contain and mitigate the impact of COVID-19, as indicated by the following impacts of the pandemic.

Inadequate health systems

The pandemic poses a major challenge for the MCs affected by fragility and active conflict due to a lack of basic healthcare services, systems and infrastructure, and resources. According to the World Health Organization (WHO), the entire health system of Yemen has collapsed and cannot cope with the impact of COVID-19. In Syria, the UN estimates that 70 percent of healthcare personnel have left the country as refugees and migrants, while only half of hospitals are operational and lack the necessary capacity to cope with the crisis.

Despite the limited resources and capacities, the governments of the MCs in the region have made considerable efforts to support people affected by the pandemic, but it is beyond their capability. In Yemen, there are only 675 beds and 309 ventilators for a population of over 28 million people. Hospitals and clinics have been destroyed by the protracted conflict. One in six of the medical staff have left the country, leaving 33 districts without any doctors.306 A significant number of populations are not able to access basic hygiene facilities and cannot wash their hands due to a lack of clean water. The MCs affected by fragility and active conflict have already been struggling to deal with other non-infectious diseases, let alone to contain and mitigate this deadly invisible pandemic.
The pandemic poses a major challenge for the MCs affected by fragility and active conflict due to a lack of basic healthcare services, systems and infrastructure, and resources.

The economy

The pandemic exacerbates the economic vulnerabilities of all the MCs in the region but hits the economies of FCS hardest by increasing supply- and demand-side shocks. The gross domestic product (GDP) of these MCs is expected to shrink by 7 percent in 2020 and will further reduce GDP per capita from US$2,900 in 2018/19 to US$2,100 in 2020. The macroeconomic vulnerabilities of these countries has been further exacerbated by the pandemic’s effect on critical sectors, including manufacturing, tourism and small and medium-sized enterprises (SMEs) in MCs such as Jordan, Lebanon and Palestine. According to the OECD, tourism contributes $5.3 billion to the GDP of the MENA region, and the decline in global tourism due to travel restrictions has severely impacted the revenues and income of MCs’ governments. In Egypt, where the tourism sector accounts for 12 percent of GDP, it is estimated that lost tourism revenues will account for two thirds of the loss in GDP due to COVID-19. Other countries in the region that rely heavily on tourism are witnessing job losses in the hospitality and tourism industries as international travel is severely restricted. All these factors are expected to further increase existing economic, political and social fragility and vulnerabilities. Moreover, the findings of IsDB’s debt sustainability report in 2020 indicates that the pandemic has brought to light the issue of debt sustainability in some countries – namely, Lebanon, Sudan and Tunisia. The paper highlights that these MCs are experiencing a sharp decline in macroeconomic areas, reflecting the drop in oil prices and the negative impacts of protracted active conflicts and fragility. Furthermore, remittances have also been negatively affected by the pandemic. According to the IMF, the MENA region received over $62 billion in remittances in 2018. Remittance flows to Jordan and Yemen are estimated at 12.5 percent and 10.2 percent, respectively, of the countries’ GDP. Indeed, remittances represent 14 percent of the combined GDP.
of the MCs in the MENA region, but they are expected to decrease by 20 percent due to restrictions and job losses among the emigrants working in developed countries and the negative impact of COVID-19 on the global economy.\textsuperscript{309} The pandemic deepens further the macroeconomic instability of the most fragile economies of the MCs, such as Egypt, Jordan and Lebanon, which had already been struggling to cope with existing economic and social pressures, shocks and vulnerabilities prior to the pandemic.

**Unemployment**

The pandemic contributes to increasing unemployment due to lockdowns and restrictions on people’s movement. Employment in the MCs affected by fragility and conflict in MENA is dominated by the informal sector, which employs an average of 68 percent of the workforce, with 74 percent in Yemen, 71 percent in Lebanon and 70 percent in Morocco.\textsuperscript{310} This sector, which accounts for 6.7 million jobs across MENA, has been severely affected by the pandemic. SMEs, which employ a significant proportion of the workforce, have also been affected. It is expected that the pandemic will lead to the loss of 1.7 million jobs in the Arab region, including approximately 700,000 held by women.\textsuperscript{311} While most MCs are struggling to cope with the negative impacts of COVID-19, those affected by fragility and conflict are more vulnerable than the others. COVID-19 contributes to a sharp decline in household income in the most fragile and conflict-affected MCs in MENA, including Iraq, Lebanon and Sudan. As indicated by the IMF, as export earnings decline and social distancing contributes to reduced economic activity, incomes will decrease, particularly, in both the formal and informal sectors, among low-skilled workers.\textsuperscript{312}

As indicated by the IMF, as export earnings decline and social distancing contributes to reduced economic activity, incomes will decrease, particularly, in both the formal and informal sectors, among low-skilled workers.
Political and social instability

The pandemic is considered a critical driver of political and social instability. Anecdotal evidence indicates that COVID-19 exacerbates economic, political and social instability in MCs affected by fragility, conflict and humanitarian challenges.313 There is also a concern in these contexts that the crisis might ignite or exacerbate grievances, mistrust and a sense of injustice over access to healthcare services, decent jobs and livelihoods. This could drive conflict that could undermine development, peace and social cohesion, creating a vicious circle leading to even greater fragility.

Refugees and IDPs

The spread of COVID-19 also presents serious risks to refugees and IDPs. According to the United Nations High Commissioner for Refugees (UNHCR), the total number of forcibly displaced people has reached over 79 million, of which 35 percent are from the MENA region. The most refugees (4.1 million) are hosted by Turkey, followed by Lebanon (1.7 million) and Jordan (1.5 million). The refugees live in densely populated camps or congested areas, making it difficult to maintain social and physical distancing, with inadequate hygiene, healthcare and clean water facilities.

The limited access of refugees to basic healthcare services is a concern and contributes to a lack of effective tracing and recording of the number of people infected in refugee camps. Although some governments of MCs in the region have provided refugees with access to national health services, preventing, containing and mitigating the pandemic remain critical challenges. COVID-19 also increases pressure on the economy and the livelihoods of refugees working in the formal sector – predominantly women, who are the backbone of the refugee economy. They have been severely affected by the lockdowns, quarantine requirements and other restrictions imposed by governments as a result of COVID-19. Refugees’ and IDPs’ access to information about pandemic-related safety are severely constrained by limited connectivity. The prolonged confinements and restrictions will further contribute to destroying their livelihoods.

Although some governments of MCs in the region have provided refugees with access to national health services, preventing, containing and mitigating the pandemic remain critical challenges.
As highlighted in Chapter 3, human and social capital are central to building resilience, both in their own right and in terms of their contribution to developing both financial and physical capital. Human capital – the knowledge, skills, health and well-being that enable people to access life opportunities – lies at the heart of human development and provides the basis for economic growth. Social capital – the “networks together with shared norms, values and understandings that facilitate co-operation within or among groups” – enables communities to build the social institutions needed for productive life. The two concepts are closely linked; this requires fair, equitable and sustained investment in human capital, and strengthened ties both horizontally across society and vertically between citizens and the State.
In MENA – and in FCS more broadly – investments in human development and social cohesion will be a fundamental component of peacebuilding, resilience and recovery. Governments in the region, as indicated by interviews with representatives of the Libyan, Iraqi and Yemeni governments, emphasize the importance of human capacity, health and education in the process of recovery and resilience. These investments should be prioritized and delivered by IsDB and the wider international community in ways that help prevent conflict and promote equity. 317 Half of the countries in the MENA region are affected directly or indirectly by conflict in ways that have created sustained pressure on governance, political and social institutions, economic growth and social cohesion. Managing the impact of these pressures and setting a course for recovery and reconstruction require clear policies, targeted investments and an overarching focus on building resilience.

This chapter first summarizes the theoretical underpinnings of human and social capital and their contribution to building resilience and provides an overview of the specific challenges faced in MENA. It then discusses best-practice approaches for building human and social capital, based on case studies from other FCS, before providing recommendations for IsDB for specific investments in MENA.

### Human and social capital in MENA and the humanitarian–development nexus

By all measures, conflict, displacement, humanitarian disasters and fragility in MENA have had a severe impact on social and human development, seriously limiting or reversing human development and damaging the capacity to build human capital in the future. Even neighbouring countries have been affected both directly and indirectly by conflict in bordering States, including through the rapid influx of large numbers of refugees and the increased demands for border security and infrastructure, as well as the threat of conflict encroaching on their territory. The promotion of resilience across the region hinges on the ability to make rapid and sustainable progress on supporting large segments of the population to progress, while at the same time strengthening and updating the capacity to deliver services in ways that are seen to be fair and equitable and which genuinely deliver human development for all in society. Failure to deliver rapid gains in equitable human development risks creating or exacerbating societal tensions.

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**Box 14. What is resilience in human development services?**

Resilience is the capacity of actors, institutions and populations to prepare for and effectively respond to crises; to maintain core functions when a crisis hits; and, armed and informed by lessons learnt during the crisis, effectively reorganize systems and services if conditions require it.

based on a sense of inequality and will have a negative effect on efforts to build social cohesion.

The humanitarian–development nexus is a concept that aims to bridge this vulnerable and complex period using a flexible approach that can pivot between humanitarian responsiveness and investments in developing longer-term systems and capacity where possible. It seeks to remove the barriers that have traditionally affected the way in which development partners support countries during and after humanitarian crises, reducing the artificial lines between immediate humanitarian response and durable recovery. The nexus focuses on building coherence between humanitarian and development responses, ensuring that each delivers as the opportunity arises and need requires. It thereby strengthens comparative advantage and cooperation among development partners to ensure better use of resources, harmonizing around common priorities and objectives, and working to multi-year time frames even for humanitarian responses.

The nexus is not a new idea, but it has successfully enabled development partners to shift their approaches to supporting humanitarian contexts. The UN has framed the nexus as ‘the New Way of Working’ (NWoW)318 and has integrated the concept into its Agenda for Humanity319 in accordance with the 2030 Agenda for Sustainable Development. The concept of the humanitarian–development nexus is well adapted to many settings and contexts in the MENA region, as it promotes a responsive and flexible approach that can focus on supporting people to recover from conflict.

**Human capital in MENA**

Countries that prioritize investments in human capital develop stronger, more diversified economies that are better equipped to withstand a range of shocks, including economic, conflict-related, humanitarian and natural disasters. But while the World Bank estimates that human capital accounts for roughly two thirds of global wealth, it accounts for only 35 percent of wealth in MENA, a decline from 39 percent in 1990.320 Both demographics and the shape of labour markets play a significant role in enabling countries to achieve higher rates of human capital wealth. In MENA, although there has been an upward trajectory in women’s education and better health (judged by longer life expectancy), this has yet to lead to improved job and employment benefits, or to more active civic and political participation.321 In MENA countries, women account for less than 40 percent of human capital wealth because of their lower earnings, lower labour force participation and fewer average hours of work. Gender parity in earnings could generate an increase of 18 percent in human capital wealth.

Many of the challenges associated with building human and social capital were certainly already in place before the conflicts began. Indeed, some were themselves drivers of conflict, insofar as inequality of opportunity and life chances underpinned the sense of disadvantage felt by large groups of people in these countries. These longer-term structural challenges have nonetheless been exacerbated by violent conflict. In Syria, for example, life expectancy among women declined from 80 years to 75 years between 2010 and 2013.322 Conflicts that have disrupted the upward momentum of human development in Iraq, Syria, Libya and Yemen make equitable long-term investment in human capital across all populations difficult.

**Social capital in MENA**

Social capital is an often intangible force that supports and promotes individuals (e.g. in relation to employment), strengthens community collaboration (e.g. safety-based networks such as neighbourhood watch) or builds national identity by creating a strong sense of being part of a nation.323 Social capital including access to knowledge, communication systems and links between different groups united by a common cause – was a central component of both the Arab Spring protest movements and the subsequent conflicts that have affected the study countries.324 Furthermore, conflict, unplanned migration and internal displacement disrupt and destroy social capital, as communities and households break up and relocate and new communities form. While social capital is increasingly well understood, its measurement remains a challenge, and the extent to which social capital can be targeted for investment is unclear.

Although there are serious negative effects on social capital emanating from the conflagrations that have affected the MENA region, there may also be positive impacts. Recent research suggests that conflict can create new social and economic opportunities for women.325 The opposite is also true, and in some contexts, women’s place in society has
become even more curtailed. For example, the rise of child marriage among girls in refugee camps effectively ends their opportunities for education and, in many cases, formal employment.326

Drivers of human and social capital depletion

The MENA region – and in particular the four case study countries of Iraq, Libya, Syria and Yemen – faces a number of significant challenges in terms of human and social capital depletion. They include the following.

Direct effects of conflict on social and human capital. The loss of infrastructure in all the case study countries has been severe, and schools and healthcare facilities as well as teachers, healthcare workers, ambulances and rescue personnel have all been affected by conflict, especially in Syria, Yemen and Libya. In these countries, schools and hospitals have been damaged or destroyed. For example, in 2018 there were reportedly 257 attacks on healthcare infrastructure and personnel in Syria, 53 in Yemen and 47 in Libya. In Libya and Yemen more than half of healthcare facilities are either closed or no longer fully functioning, while in Syria half of private facilities were not fully operational and a third of public hospitals were out of service as of the second half of 2018.327 Attacks on service-sector workers are damaging to social cohesion and resilience and have long-term effects on systems capacity.

Significant damage has been done to the physical infrastructure across the four case study countries with regard to buildings, vehicles, equipment and additional infrastructure such as corollary services (e.g. laundries, kitchens, electricity substations, access roads, fencing and security arrangements). Documented attacks on schools in Libya identify a pattern of both direct, targeted bombing and attacks on personnel as well as collateral damage and security concerns that led to school closures. Altogether, by the end of 2016, according to the Ministry of Education in Tripoli and Benghazi, 558 schools had been affected by the crisis, impeding education for 279,000 students.328

These impacts have also extended across multiple sectors, with unforeseen complications for health and education. In Yemen, for example, infrastructure damage contributed to a 37 percent drop in cereal production in 2016 from the previous five-year average, which in turn has “exacerbated drought conditions and contributed to severe food insecurity and disease”329 and has also affected children’s well-being and school attendance and accelerated migration.
The rapid loss of human resource capacity. Alongside damage to healthcare and education infrastructure, human resource capacity has been badly depleted, as key workers have been injured, died, fled or are forced to look after family members affected by the conflict. Up to 70 percent of the healthcare workforce in Syria are thought to have left the profession, and by 2015 alone more than 15,000 doctors (out of 30,000) had fled. Almost 1,000 doctors have been killed in Syria since the conflict began. Between March 2011 and July 2019, Physicians for Human Rights documented the killing of 890 medical personnel.

Violence in the other case study countries has had a similar impact. In Iraq, for example, as many as 20,000 doctors have fled the country. Between 2013 and 2017, an estimated 100 teachers and 60 students were killed in the conflict. Today, the country’s northern provinces are still recovering from the ISIS insurgency, which closed down schools and denied education to children. By June 2019, nearly 2,000 schools had reopened in the northern city of Mosul, but a lack of teachers meant that some were operating with as many as 60 students per class.

In Libya, the pre-conflict healthcare and education systems both relied heavily on foreign workers, many of whom have left the country. Libya has lost up to 80 percent of its foreign healthcare professionals; the mostly local staff who remain often do not receive their salaries, and many have taken up second jobs. The estimated 250,000 Tunisian nationals teaching in Libya prior to 2014 had fallen to 25,000 by 2017, and two out of every five registered teachers are believed to be inactive. Replacing staff is not easy. The WHO estimated that Libyan hospitals were in need of 2,360 specialists, 4,997 nurses and 359 midwives.

At the same time, lay workers and students with varying degrees of formal or informal training have stepped in to fill gaps over years of conflict. Many of these will be people who would not have qualified for training under the pre-conflict
conditions because of their educational attainment, language barriers, party affiliation or social and cultural norms that applied at the time.

The loss of institutional, manufacturing and systems capacity. In many settings, as conflict deepens, and emergency provision is more and more the norm, institutional capacity can be lost. Those with skills move to other roles. Rules and procedures are forgotten, and what was once a feature of a strong and resilient system can be quickly eroded.

Pharmaceutical procurement and distribution capacity in Syria is a case in point. Prior to the conflict, Syria produced more than 90 percent of its own medicines. After eight years of protracted fragility, most national production of pharmaceuticals has collapsed either through the direct effects of war or because it has become impossible to import the ingredients needed to manufacture drugs. Moving commodities to where they are needed in a systematic and predictable way is not possible. Many private pharmacies have closed, and, as noted already, healthcare facilities have been specifically targeted by warring parties.

The WHO has started a series of interventions to support access to vital pharmaceuticals. One of these is delivered as part of a package of support for remote mentoring and includes the provision of emergency kits for non-communicable diseases (NCDs) comprising medical equipment and 22 essential medicines for chronic diseases such as hypertension, cardiac diseases, diabetes, chronic respiratory disease, and selected mental health and neurological conditions. They also included field guides illustrating NCD treatment protocols based on WHO standards to support health staff. What is telling about this example is the extent to which Syria now relies on external assistance not just for basic medicines but also for assistance in distributing them and for support to staff for their correct use. It will be crucial for efforts to rebuild healthcare systems to invest in staff capacity at all points within the system related to the procurement, supply and use of medicines. But there is also a need to revitalize the national pharmaceutical industry again, to create more self-sufficiency, build livelihoods and regenerate an area of expertise that was a Syrian strength.

Competing priorities and resource scarcity. Depending on their role, responsibility, function and other factors, decision makers will have different views about priorities for recovery. It is crucial that the political aspects of technical investments are carefully considered. Prioritization and decision-making should be done in a way that is accountable, open, consultative and works to strengthen social cohesion rather than exacerbate divisions. However, the scale of need will almost certainly outstrip available resources. Where prioritization favours the perceived winners of conflict or exacerbates the pre-conflict inequities, investments are more likely to cause a revival of tensions than support conditions for resilience and human capital formation. From the point of view of economic growth and poverty reduction (in addition to peacebuilding and social cohesion), investment priorities should favour the most vulnerable people and should ensure at the very least that equity considerations are explicitly introduced to avoid exacerbating inequalities.

From fragility to resilience: What is working in practice?

Each conflict setting is unique, derived from specific circumstances, personalities, events and decisions. Yet across modern conflicts and post-war recovery processes, enough commonality of experience has occurred to enable the learning of lessons and the identification of best practices in relation to aiding and supporting recovery, strengthening resilience and (re)building social cohesion.

Progress on recovery requires broad participation and social engagement

A critical lesson emerging from widely different experiences is the importance of broad engagement and participation, taking advantage of a newly established peace to foster a sense of cohesion and forge a common vision in which all citizens can feel they have a stake. However, without such a process, lessons from other conflicts suggest that investment in recovery will be wasted. The UN Security Council, reflecting on its experience of conflict, found that effective peacebuilding needs to be guided by countries themselves, but peacebuilding actions need to reflect true national or local consensus and not simply the views of only one segment of society.

Institutional capacity-building at all levels is central to successful peacebuilding

Strengthening institutions at central and especially at local levels is both challenging and vital to promoting peace and easing away from conflict, including for service delivery and community engagement. Critically, real peace (and, consequently, social cohesion) cannot be achieved without...
addressing the root causes of conflict. Women’s contribution to peacebuilding is crucial, and economic revitalization and national reconciliation should integrate a strong gender dimension. Women’s participation in resilience-building and both national and community development can increase pace, deepen results and improve outcomes for all.

In contexts such as Syria and Libya, where there has been a serious erosion or collapse of central government along with the rise of local authorities and service providers, “the crucial role played by local forces must be acknowledged and ... new representation and participation mechanisms need to be imagined ensuring the selective inclusion of consensual and influential local leaders in national political dialogues and mediation processes”.

**Although a good starting point, plans must be cognizant of political circumstances and can quickly become out of date**

Plans are necessary as a basis for action, but they date quickly and should be adapted flexibly and often. Plans can mistakenly be a means of closing down options for resilience if they are not adapted regularly. They can also lead to missing key steps. For example, with the conflict in Syria seemingly reaching an endpoint, the international community, led by the UN and international finance institutions, has produced a number of blueprints for reconstruction that assume recovery is largely a technical issue, with as yet limited consideration given to the type of governance system that will underpin it or the reconciliation, peacebuilding and institutional arrangements needed alongside recovery. Such plans assume a competent central authority oriented to the public good. Yet the experience in Iraq and elsewhere suggests that this assumption could be misplaced. Although this report does not consider political and governance processes directly, the experience in other conflicts and fragile settings consistently points to the need for an accepted peace process as a basis for recovery and reconstruction, as otherwise the causes of fragility may continue to undermine efforts, and neither resilience nor social cohesion will be strengthened.

Indeed, in all the MENA countries under study, a number of existing plans and priorities have already been developed to support a coordinated human development response. Some of them recognize the critical need to address the root causes of conflict in, for example, the education sector. Despite the absence of political settlement, such plans have outlined a range of options and priorities. For example, in Yemen, plans for the social sector have been assembled by partners and published although they reference far-reaching and complex political processes that need to be completed. Plans should thus be kept under constant review, and, as experience demonstrates, although they can be a useful starting point, flexibility and adaptation are the most important features of responding to social and human capital needs in FCS.

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**Box 15. Building resilience in Lebanon: The OECD approach applied in practice**

In 2014, as Lebanon struggled to cope with the spillover effects of the Syrian crisis, a UN-led workshop brought together Lebanese and international policymakers and practitioners to develop a road map to support vulnerable communities and institutions.

The workshop applied the OECD’s stabilization systems analysis methodology, following a five-step process to: 1) identify key risks emanating from the Syrian crisis; 2) identify assets and resources needed to ensure the continued well-being of Lebanese communities and institutions; 3) analyse the characteristics of these key assets; 4) review existing capacities; and 5) analyse gaps and identify priority support required.

Participants assessed three main types of risks related to the presence of large numbers of Syrian refugees in Lebanon, economic and trade shocks, and threats to social cohesion, and focused on identifying the resources and capacities needed to absorb, adapt, and transform these risks.

Assets identified as being crucial to supporting the resilience of vulnerable communities and institutions included the provision of remittances from abroad; the role of the private sector in delivering essential services; networks of volunteers operating at community level; growing solidarity among young people; strong religious and political ties supporting mutual support among members of particular groups; and a history of hospitality, encouraging acceptance of refugees by host communities.

Participants then suggested priority actions that could make a positive contribution to stabilization and resilience in Lebanon, which could then be used as a next step by sector groups to update the various sector plans that comprised the Lebanon Crisis Response Plan.

Education works as a pathway to build resilience and cohesion

Education is an important right in and of itself, and an essential component in building human capital. It can support children’s protection and well-being by providing a safe and secure environment, enable a sense of belonging and personal achievement, and provide the skills necessary for individuals to secure meaningful employment, which in turn drives economic development. But for countries emerging from violent conflict or looking to progress along the spectrum from fragility to resilience, education must be much more than this. Education can have an important peacebuilding component, helping to build the social capital that is required for greater social cohesion and resilience. What matters is not only getting children back into school, but also promoting peace and social cohesion.

Most obviously, education offers an immediate peace dividend to war-weary populations. It is an important priority for communities. During violent conflict, for example, securing access to education for children is an important motivating factor influencing a family’s decision to flee. As Chapter 2 explains, a State’s failure to provide essential services is a frequent characteristic of fragility. Getting children back into school can, therefore, have an important stabilization effect, rebuilding the State’s legitimacy. In the aftermath of civil war in 2001, the Government of Sierra Leone and the international donor community focused on reconstructing school infrastructure, reintegrating returnee children and ex-combatant youth, accelerated learning programmes, and legislating for free and compulsory education to help students catch up.

The equitable distribution of educational resources is an important means of addressing horizontal inequalities. This means, for example, that governments should build new schools and carry out essential maintenance in areas that have historically been marginalized. It also requires inclusive recruitment policies to ensure that teachers and staff are recruited from different geographical, ethnic and religious communities. Ensuring education content that promotes tolerance and respect for others can also have a longer-term transformational impact on society, building greater horizontal and vertical trust.

Box 16. Education as a source of resilience

Palestine and Jordan face myriad development challenges, including sluggish economies, limited natural resources and – in the case of the former – a lack of full sovereignty. In both, however, the education sector has emerged as a success story, identified by IsDB as an important source of resilience.

Palestinians are among the most highly educated people in the region, with an adult literacy rate of 96.7 percent, compared with an average of 74.2 percent for the Arab world as a whole. The education sector has achieved particular success in supporting women’s development – female literacy rates are far higher than in most neighbouring countries, and secondary school enrolment among girls is higher than among boys – helping to better integrate women into the job market.

A similar situation exists in neighbouring Jordan, where the adult literacy rate stands at 97.9 percent, and female youth literacy at 99.3 percent. The provision of quality education has helped Jordan to generate remittances of 11.1 percent of GDP, as highly educated Jordanian migrants living abroad send money back to their families at home. This system has come under increasing strain, however, as Jordan struggles to cope with the impact of the Syrian refugee crisis. In response, the government has implemented a number of supply-side measures to bolster the education system, including the introduction of ‘afternoon shifts’ in schools to provide classes to refugee children (see Chapter 5).

The challenges for MENA are, therefore, considerable. Rebuilding schools, hiring more teachers and reintegrating children into school are actions that, on their own, may not be sufficient to achieve these outcomes. The quality of the educational services provided matters too. Poor-quality teaching and outdated pedagogical techniques will not provide the skills necessary for recovery and resilience, while curricula (often highly contested) that promote intolerant ideas can further undermine social cohesion and reinforce existing drivers of conflict. Across the region, a long-standing emphasis on rote learning has led to a mismatch between educational outputs and the skills required by the private sector, while States have long looked at education as a means of promoting a national identity based on narrow and divisive ideologies such as ethnic nationalism or sectarianism.

Inter-sectoral investments target opportunities to build resilience

Building social cohesion and strengthening resilience require investments that support the life chances of all of society’s members. In conflict, complex social and economic factors can put severe pressure on families and communities, leading to behavioural adaptations that have harmful effects on some of the most vulnerable members of society, including women, girls, youth and children. These adaptations may have been present prior to the conflict – such as early marriage or child labour – but on a declining trend.

Human capital formation (health, education, including early childhood development, and skills and training) involves a range of multisectoral inputs, effects and outcomes. Thus, aspects of nutrition, social protection and gender are integral to successful health and education services and outcomes. A serious programmatic challenge is that the most pernicious problems fall between two or more sectors, requiring cooperation, coordination and investment by multiple partners, government departments and community groups to agree the nature and extent of a problem – such as child marriage – and then agree an approach to addressing it.

The Sustainable Development Goals (SDGs) can only be achieved by investing in ways that leave no one behind, including or perhaps especially the most vulnerable. With respect to the most complex problems, this requires working between sectors. Figure 4 illustrates the relationships among health, education, training, gender, nutrition and social protection, identifying examples of critical inter-sectoral engagement that could support social cohesion and strengthen resilience.
Investing in livelihoods by creating jobs and skills

Access to jobs, training and support for entrepreneurship, microfinance and livelihoods support will all contribute to and result from human capital formation. Jobs and employment are the engine of human development capacity-building in a wide range of ways, including directly (educators and health workers form two of the largest employment groups, especially for women, while employment increases tax revenue, a fundamental basis for human capital creation) and indirectly (household and community wealth drives investment in human development and broadens entrepreneurship). In a post-conflict setting, creating apprenticeships, training opportunities and start-up business roles for young people can be a crucial springboard to human development. It creates opportunities for young people to pursue productive activities, build skills, gain experience and start working towards professional development. Many targeted post-conflict programmes also create opportunities for trained adults to switch professions and upgrade professional accreditation.

In health, for example, during conflicts, lay healthcare workers may take on healthcare duties with minimal qualifications or following unaccredited training. Post-conflict, finding a way to enable such individuals to become accredited (through access to formal training or qualification) can have multiple impacts: retaining and strengthening skills, preserving available services and bridging previously divided healthcare systems.

In Syria, dozens of informal programmes during the conflict have aimed to train both hospital nurse-aids and homecare health visitors. Nurse-aids were women and men who were trained in makeshift, donor-funded programmes for up to nine months in a range of nursing and hygiene tasks, including wound care, patient monitoring, nutrition, hygiene and other vital adjunct areas. Home visitors supported chronic care and post-operative or trauma care in the home, saving families the time and expense of travelling long distances to hospitals for bandage changes or basic chronic disease monitoring. While not qualified (or recognized) under the national Syria health system, both social solidarity and professional need point to the value of rebuilding professional cadres by starting with those who are there and working. Post-conflict programmes aimed at supporting unqualified workers to gain a fast-track qualification or those who left the profession to return easily (as nurses, doctors and teachers) can make a vital contribution to building social cohesion, strengthening service delivery and ensuring the best use of available capacity, especially in rural and hard-to-reach areas. Creating flexible pathways that allow professionalization, especially among lay workers of previously warring parties, can serve multiple benefits, leading to greater commitment to service delivery quality, restoring service delivery capacity faster and improving social cohesion in the healthcare or education system to make services work for everyone.

Building social cohesion and strengthening resilience require investments that support the life chances of all of society’s members.
Figure 6. Interconnected sectors that contribute to human and social capital in a post-conflict context

(Re)Building infrastructure for resilience, recovery and risk reduction

Systems-strengthening and infrastructure reconstruction should be undertaken with a ‘build-back-better’ (BBB) approach to ensure that buildings, utilities and other material elements of human capital investments are more resilient than before. The BBB approach first emerged in the aftermath of the 2004 Indian Ocean tsunami and has since been adopted in response to a number of other natural disasters, as well as to support the end of civil conflicts in Sri Lanka and Indonesia’s Aceh province. At its core, the aspiration of BBB is to “use the opportunity of a disaster response to leave societies improved, not just restored”. It helps to ensure that reconstruction and recovery strategies do not simply recreate the inequities that previously existed and which contributed to the creation of horizontal inequalities that helped to drive conflict.

BBB for infrastructure should have three main objectives. First, infrastructure should be built to better withstand war, climate change and natural disaster and thus to last longer and cause less injury (in a literal sense: shatter-proof glass, drugs storage in reinforced settings, earthquake-resistant foundations where appropriate). Second, it should introduce long-term innovation where both possible and cost-effective (such as biogas or solar-powered electricity) that takes full advantage of new knowledge. Third, it must ensure that the reconstruction of systems addresses the underlying weaknesses or causes of conflict that contributed to hostilities. These might include unbalanced investment in schools or healthcare services in relation to populations, access constraints for certain vulnerable groups, and other factors.

This last point is critical for addressing the horizontal inequalities that prevail across the four main case study countries in MENA. Syria’s province of Idlib, for example, suffered decades of underinvestment and neglect from the government in Damascus. In the future, potentially under a new political agreement, ensuring that basic infrastructure is rebuilt comprehensively and equitably will be a key task.

Investments in infrastructure should be prioritized in areas where people are currently living, rather than necessarily rebuilding them in pre-conflict locations. This is because large numbers of refugees and IDPs will not necessarily return to their original homes, often settling instead in peri-urban locations. The example of Idlib is again instructive. Because they are affiliated with the Syrian opposition, large numbers of IDPs currently living in the province are not expected to return to homes in government-held territory, for fear of arrest or retribution. Meanwhile, despite the defeat of ISIS in Iraq in 2017, the Kurdistan Regional Government continues to host 700,000 IDPs, the majority of whom do not plan to return to their homes in the near future. Services should also be designed to be small, covering basic and most common needs, in close proximity to the community and accountable to local people.
Box 17. Applying ‘build back better’ in Aceh, Indonesia

Emerging as a concept in the wake of the 2004 Indian Ocean tsunami, BBB has been applied by the donor community to respond to a number of natural disasters. A 2013 report by the Overseas Development Institute reviews the successes and failures of the approach in reconstruction efforts in the Indonesian province of Aceh in 2004, and in responding to Cyclone Nargis in Myanmar in 2008 and the Haiti earthquake of 2010. In all three locations, communities suffered from significant challenges even prior to the disasters, including violent conflict, weak institutions and fractured civil society, and BBB was seen as a way of dealing with these multiple drivers of fragility. However, a key lesson emerging is that a lack of consensus over what BBB means in practice – development partners, non-governmental organizations (NGOs) and national governments have all emphasized different priorities – can hinder efforts at ensuring a properly coordinated response.

In Indonesia, the central government saw the response to the 2004 tsunami as an opportunity to consolidate peace, bring a 30-year conflict with Acehnese separatists to an end and set up a special agency – the Rehabilitation and Reconstruction Agency (BRR) – to coordinate reconstruction efforts. The agency, in turn, emphasized different priorities, including a focus on reforming local government and engaging communities, which were not shared by the Acehnese government and separatist rebels, who sought an end to the conflict and greater autonomy from Jakarta. Peacebuilding was also not a major component of the international response. Rather than attempt to transform institutions, development partners focused on building local technical capacity and improved physical infrastructure, while the humanitarian community saw BBB as an opportunity to empower individuals and communities and implemented cash-for-work projects and provided shelter to IDPs.

BBB is about more than simply rebuilding infrastructure to be more physically resilient; as the Overseas Development Institute report argues, it is the possibility of transforming both institutions and political and social relationships that constitutes the most important element of the concept. A key lesson from Aceh is that this component received insufficient attention from the international community. Understandably, development partners focused reconstruction efforts in areas that had been affected by the tsunami. However, this meant that the development response neglected areas that had been damaged by the 30-year war with the central government, even though losses as a result of the conflict were estimated to be twice as large as those caused by the tsunami. By focusing on one group of people at the expense of another, the development response potentially undermined the Indonesian government’s focus on peacebuilding. Humanitarian actors, meanwhile, struggled to spend the huge sums of money allocated for reconstruction quickly enough.

Impact of conflicts in MENA on achieving the SDGs

Over the past few years, MCs have been progressing at varying degrees towards achieving the targets of the SDGs. The uneven progress towards the goals has highlighted the acute challenges in several MCs, including in the MENA region, as they grapple with competing priorities in their development efforts, and various conflicts have caused some States to be considered completely fragile. Ultimately, it must be recognized that IsDB MCs as a whole still have a long road ahead if they wish to achieve the SDG targets by 2030. Overall, they have achieved 56.4 percent of the targets – thus just over half.

According to the 2020 Sustainable Development Report, the SDG performance of MENA countries varies greatly. Conflicts in some countries have led to poor and declining performance on most SDGs, particularly on SDG 2 (zero hunger), SDG 3 (good health and well-being) and SDG 16 (peace, justice and strong institutions). However, countries in MENA made progress between 2010 and 2019 and have increased their SDG Index score by more than one point on average.360 Countries less affected by conflicts perform best on SDG 1 (no poverty) and SDG 17 (partnerships for the goals). Still, all countries in the region face major challenges in reaching SDG 2 (zero hunger), due to undernourishment, stunting, obesity or issues related to agriculture and sustainable land use (such as poor nitrogen management). Access to infrastructure, primarily covered under SDG 6 (clean water and sanitation) and SDG 7 (affordable and clean energy), is generally high or improving rapidly. However, further efforts are needed to strengthen domestic labour rights and standards and to tackle negative spillovers under SDG 8 (decent work and economic growth); to enhance freedom of speech and address high levels of perceived corruption under SDG 16 (peace, justice and strong institutions); and to make the transition towards more circular and green economies (SDGs 12 to 15). High CO₂ emissions embodied in fossil-fuel exports have a strongly negative impact on the performance of most countries in the region on SDG 13 (climate action).

There are persistent data gaps in the Gulf States for tracking poverty at $1.90/day and $3.20/day, income inequality (using the Gini coefficient) and working conditions. Greater investments are, therefore, needed in budget surveys, household surveys and data availability.

Box 18. Case study: Best practices in health-sector recovery and resilience-building in Iraq

In Iraq, working with a range of stakeholders and reviewing experience from the previous years of conflict stretching back over 35 years, a number of principles and best practices were identified in 2017 to support health-sector recovery. These included some now familiar points:

- **Early recovery should be geared to investing in human capital services and systems that will perform effectively, not necessarily reconstructing old, pre-existing ones.** In Iraq, a system based on hospitals and large-scale infrastructure should be replaced by smaller, more local clinics that people can access more easily for the most common health needs.

- **Recovery is not a technocratic exercise, but rather a political process,** shaped by national, local actors and foreign partners. Equally, recovery is not a linear process, but one full of setbacks and shocks. Flexibility and responsiveness will enable services to adapt quickly to changing conditions, bearing in mind that services should be delivered as close to the community as possible.

- **Healthcare services should be prioritized for their cost-effectiveness, while healthcare workers should be adaptable and able to task-shift,** as resources seldom match needs and are likely to be more rather than less constrained over time.

- **Local decision-making about service design and delivery will promote accountability and strengthen community and social cohesion.**

- **Capacity should drive the need for infrastructure, rather than the reverse.** Recovery investments often favour infrastructure, equipment and other hardware, rather than capacity-building and management. The impact is that “under-skilled health workers try to operate too many facilities, exacerbating existing weaknesses or creating new ones”.

- **Populations undergo significant shifts and redistribution as a result of upheaval.** Infrastructure and systems investments should focus carefully on where people actually are – not where they used to be.

- **Asymmetry of power relations between governments and donors** (or among other actors) can be significant, and governments should try to influence donor decisions, especially where donors aim to invest disproportionately in ‘hardware’ such as buildings, vehicles and equipment, rather than in training, management capacity and institution-building.

Figure 7. 2020 SDG dashboards (levels and trends) for the MENA region

Summary of effects and impacts

Although resilience cannot durably protect against conflict, it mitigates effects and impacts and supports early recovery. The absence of resilience – the counterfactual – means that negative pressures have a much greater effect on the lives of people, the integrity of communities and the capacity of governments to deliver services in what can be a series of knock-on or cumulative impacts. These multiple human capital impacts caused by weak resilience in the face of fragility, including conflict and humanitarian disasters, are both direct and indirect. Although data are not always reliable, numerous assessments have captured the scale and scope of these impacts. Table 3 highlights the major direct and indirect effects and impacts of conflict on health and education outcomes and systems. In addition, the table also summarizes the specific (often overlapping) effects on human and social capital for women and girls and for refugees.

Critical among lessons learnt (and re-learnt more than once)\textsuperscript{361} is the need to shift away from binary thinking, state-centric analysis and static or fixed plans. Presuming that investments in human capital fit neatly into discrete sectors leads to crucial inter-sectoral services, including infrastructure-related decision-making, being overlooked. State-centric approaches make it difficult to understand fluid borders and the movement of people, goods and services (both formally and informally) across borders.
Box 19. Education priorities in Yemen: Building back a better system

When analysing the impact of the Yemen conflict on education, many similarities to the healthcare system emerge. In the cycle of conflict, “chronically weak state institutions [are] directly contributing to the current round of violence [which in turn] undermines state institutions”. This creates diminished chances of sustainable peace, as “any peace agreement would be undermined without a strong institutional foundation to safeguard its terms”. In Yemen, specifically, the challenges facing the education sector have actually contributed to the conflict and are not just affected by it. They include a lack of a common vision, insufficient human and financial resources, disputes about the curriculum, a lack of clarity about roles and responsibilities, particularly in light of decentralized services, limited capacity in both the public and private sectors, and insufficient accountability, monitoring and evaluation and learning.

With 2 million children out of school, restoring educational opportunities will be a vital component of re-establishing social cohesion and building access to opportunity for all people in Yemen. Lessons learnt suggest that to bridge the gap between humanitarian and development priorities will require broader and longer-term investment in education systems to address the underlying challenges that have contributed to the conflict.

A World Bank assessment suggests a three-phased response. An immediate response (0–12 months) should look to deliver rapid and tangible results, with a focus on restoring physical infrastructure; coordination with the water, sanitation and hygiene (WASH) and transport sectors to provide toilets and improved access to rural children; support to conflict-affected children (including psychosocial support and flexible enrolment for IDPs); scaling up existing schemes to both recruit more female teachers to provide education to girls in rural areas and expand the ability of the Ministry of Education to collect and manage information to support education policy. A medium-term response (12–24 months) would expand these initial activities, and – where possible – shift the delivery of services from relief agencies to the Ministry of Education. Finally, a period of long-term strategic reforms (three to five years) would see the Yemeni government develop sustainable plans for expanding the scope and quality of basic education services. This would include tools for bringing out-of-school children back to regular schools; using education as a tool to promote social cohesion and peacebuilding; defining and building school leadership and school-based management (e.g. defining the roles of the Ministry of Education vis-à-vis governorate and district education offices); and expanding the capacity of the ministry (e.g. redesign of the curriculum, developing a teacher training framework).

Table 3. Summary of the impact of fragility, conflict and displacement on human and social capital development in the MENA region

<table>
<thead>
<tr>
<th>Sector and sub-sector</th>
<th>Direct effects and impact of fragility and conflict</th>
<th>Indirect effects and impact of fragility and conflict</th>
<th>Corollary effects and impacts</th>
<th>Effects of the conflict on systems capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td>Death, injury and disablement of the population (including health workers) from bombing, fighting and unexploded ordinance</td>
<td>Risk of communicable diseases increases (increased mobility, health system breaks down, less public health and sanitation) Preventive care may diminish through budget constraints, a lack of access and a lack of personnel Access to family planning, reproductive health services and maternal care weakened Non-communicable diseases increase, leading to expensive complications (in terms of health and costs) Vulnerable people more likely to be untreated for health problems Access to routine services, preventative care and treatment disrupted</td>
<td>Interruption of electricity and water supply Shortage of sanitation Accumulation of rubbish Environmental hazards unchecked Increase in gender-based violence Youth join armed groups (by force or otherwise) Child labour, child trafficking, forced labour Food insecurity (lack of food, poor diversity, high costs) affecting maternal health, infants and young children, the infirm and elderly people Early and forced marriage among girls</td>
<td>Systems breakdown, especially where previously centrally planned and funded Reduced governance capacity to plan, budget for, and deliver services Breakdown in the medicine and equipment supply chain (including effects of sanctions) Destruction or damage of infrastructure and vital utilities and equipment breakdown, destruction, lack of maintenance and spare parts Doctors and nurses cannot report for duty (for a range of reasons, including death, migration, lack of access to facilities, not being paid, intimidation) Reliance on NGOs can undermine health system capacity in the longer term and creates service islands Transport to services interrupted (ambulance not functional, no fuel, no community transport plan)</td>
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<td><strong>Education</strong></td>
<td>Loss of life from bombings of schools or from war-related events (ordinance, landmines en route to school) Loss of school and infrastructure from bombing and fighting Lack of materials, books, supplies Teachers killed, injured/disabled or flee Teachers unable to collect their salaries Students killed or disabled Children removed from school by parents concerned for their safety or because they flee Examinations not held or marked, or accreditation not awarded Schools taken over as refugee centres High burden of trauma and mental health issues in adults and children</td>
<td>Loss or erosion of basic and specialist teaching skills Inadequate capacity to address specialist needs related to trauma or disability Children with disabilities and others with specialist needs are more likely to remain at home Access to schools limited by road safety, unexploded ordinance and a lack of security Lack of regular funding leads to reduced infrastructure quality (repairs not carried out, water and sanitation may deteriorate) Curriculum contested, examination results not shared, accreditation arrangements weakened Replacement books, furniture and materials are unavailable</td>
<td>Children taken out of school to support family livelihood (to work) Girls removed from school to marry early as a coping strategy or else kept at home for safety reasons Teaching colleges shut down, slowing the supply of teachers and increasing the loss of teaching capacity University and higher education facilities may be closed or become sites for dispute and conflict Children at increased risk of conscription, slave labour and human trafficking Loss of civic education and erosion of community integrity Loss of employment opportunities</td>
<td>Destruction or damage of infrastructure and basic utilities, including sanitation, which is vital for girls’ attendance at school Teachers cannot report for duty; student teachers abandon studies (for a range of reasons, including death, migration, lack of access to facilities, not being paid, intimidation) Reduced governance capacity to plan, budget for and deliver education services Reliance on NGOs and ad hoc education arrangements can undermine education system capacity in the longer term and creates ‘service islands’ with variable quality Transport interrupted and safety a major impediment to attendance Confusion about credentials and accreditation for students and teachers at all levels, including primary, secondary and higher levels</td>
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<tr>
<td>Sector and sub-sector</td>
<td>Direct effects and impact of fragility and conflict</td>
<td>Indirect effects and impact of fragility and conflict</td>
<td>Corollary effects and impacts</td>
<td>Effects of the conflict on systems capacity</td>
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<tr>
<td><strong>Women and girls</strong></td>
<td>Death, injury or disablement in the conflict</td>
<td>Death, injury or disablement through lack of appropriate care (for example, during pregnancy and childbirth)</td>
<td>Rapidly changing social norms</td>
<td>Experience a loss of freedoms and shrinking ‘space’</td>
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<td></td>
<td>Specific war events (e.g. chemical weapons attacks, bombings)</td>
<td>Loss of employment</td>
<td>Insecurity</td>
<td>Rights curtailed and loss of autonomy</td>
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<td></td>
<td>Mental health and trauma</td>
<td>Increased care responsibilities</td>
<td>Displacement</td>
<td>Loss of female skills linked to building human capacity (nurses, teachers) and broader female skills in society (engineers, architects etc.)</td>
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<td></td>
<td>Loss of vital services, including reproductive health services, increasing vulnerability to communicable diseases</td>
<td>Skills not put to good use (for example, in a refugee setting)</td>
<td>Loss of opportunity to build skills and finish education</td>
<td>Loss of voice</td>
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<td></td>
<td>Perceived heightened safety risks leading to coping strategies such as forced marriage of girls</td>
<td>Roll-back of social, economic and political empowerment of women and girls</td>
<td>Powerlessness compounded by loss of access to education.</td>
<td>Increased exposure to risk of violence (gender-based/conflict-related)</td>
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<td><strong>Youth and adolescents</strong></td>
<td>Students killed or disabled Examinations not held or marked, or accreditation not awarded</td>
<td>Education cut short or missed completely</td>
<td>Insecurity and displacement</td>
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<td></td>
<td>Schools taken over as refugee centres</td>
<td>Increased care responsibilities</td>
<td>Family break-up</td>
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<td></td>
<td>High burden of trauma and mental health issues</td>
<td>Lack of job opportunities for young people</td>
<td>Loss of opportunity to build skills</td>
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<td></td>
<td>Perceived heightened safety risks leading to coping strategies such as forced marriage of girls</td>
<td>Skills not put to good use (for example, in a refugee setting)</td>
<td>Forced into undervalued labour</td>
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<td></td>
<td><strong>Refugees and migrants in neighbouring countries</strong></td>
<td>Roll-back of social, economic and political empowerment of girls and loss of opportunity for young women</td>
<td>University and higher education facilities may be closed or become sites for dispute and conflict</td>
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<td></td>
<td>Risk of disability, injury and death transiting through war zones or journeying on high-risk routes</td>
<td><strong>Refugees and migrants in neighbouring countries</strong></td>
<td>Girls removed from school to marry early as a coping strategy or else kept at home for safety reasons</td>
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<td>New or resurgent illness acquired on the journey or in camps/stopovers</td>
<td>Education cut short or missed completely</td>
<td>Sense of powerlessness</td>
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<td>Loss of vital services, including reproductive health services, increasing vulnerability to a range of health risks</td>
<td>Hostility of host nations may curtail access to opportunities</td>
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<td></td>
<td>Loss of employment</td>
<td>Environmental hazards in refugee camp settings (rubbish, lack of water, overcrowding, insufficient service provision)</td>
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<td>Loss of education and training, leading to lost opportunities and diminished life chances</td>
<td>Health issues may be neglected (especially non-communicable diseases and preventive care), leading to disability, illness and premature death</td>
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<td>Mental health and trauma from war events and from the refugee journey; loss of self-respect, dignity, social cohesion, sense of community and feelings of hopelessness or powerlessness</td>
<td>Rapidly changing social norms which may materially affect freedoms, especially among vulnerable groups</td>
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<td>Hostility and physical safety concerns</td>
<td>Insecurity and physical safety concerns</td>
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<td>Displacement</td>
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<td>Family break-up</td>
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<td>Disrupted education</td>
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<td>Loss of opportunity to build skills and find employment</td>
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<td>Loss of income</td>
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<td>Weakened social cohesion</td>
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The role of donors and regional actors

The role of international aid in post-conflict and fragile states is often critical, and although valuable for humanitarian and immediate post-conflict recovery, it also creates a risk of aid dependency. This poses a problem, as it can “unintentionally undermine the emergence of the kind of productive economic activity essential for employment creation and higher standards of living”, and thus risks creating “a vicious cycle similar to the so-called ‘resource curse’ associated with high levels of rents from the export of natural resources”. This is a problem that may realistically affect many MENA countries. Thus, the plans under development in Syria, for example, in relation to post-conflict recovery do not elaborate how a competitive business environment might be instilled.

Box 20. Broad principles of decision-making for investing in post-conflict and recovery human development

Drawing on the experience of investing in human and social capital captured from a range of post-conflict settings, lessons and principles for engagement by external partners are summarized below. They incorporate the principles underpinning the SDGs – specifically, health, education, gender, nutrition and WASH:

- Aim to be consistent in supporting priorities identified in country, and ensure and promote country leadership.
- Enhance social cohesion through community engagement, promotion of local decision-making and investment in accountability processes.
- Focus on equity, with particular support to outcomes for the most vulnerable and marginalized groups.
- Aim to ‘leave no one behind’.
- Prioritize and mainstream gender concerns.
- Maintain focus on social protection and rights for vulnerable groups and rights-focused delivery arrangements.
- Maintain sustained consultation with refugees and conflict-affected persons.


In both health and education contexts, donors can facilitate as well as hamper recovery processes; by adopting different aid mechanisms, they can support resilience-building and social cohesion. For example, drawing on experience in South Sudan, Iraq and elsewhere, key lessons for IsDB engagement (in addition to those general lessons already flagged) include the following:

- Sustained engagement and partnership are preferable to short-term engagement. Investment in the assessment and planning of recovery activities should be a sustained rather than a one-off activity.
- Support capacity-building from the start. Building institutional capacity early in the recovery process helps reduce donor dependence and strengthens ownership. Where IsDB or partners continue to perform vital governance and management functions, including procurement, capacity-building is inevitably weaker. In some settings, this can lead to de-skilling, the very opposite of resilience.
- Prioritize funding instruments that can disburse resources rapidly. Funding instruments should be simple, clear and as unbureaucratic as possible to shift resources out to front-line services as quickly as possible.
- Adapt its systems to local contexts. IsDB should streamline governance structures and procedures that have been adopted to establish recovery financing mechanisms and make an effort to adapt them to the local context using locally understood and accepted approaches. This can be difficult for some donors, and the result is that scarce public-sector capacity is deployed to manage a plethora of donor systems and programming procedures and approaches.
- Focus on the policy and political nature of recovery and reconstruction, rather than the technical, and build transparency, basic operational principles and stronger institutions.
- Aim for systems-strengthening rather than systems support: Systems-strengthening requires a focus on human resources issues, including accreditation arrangements, task-shifting, and using lay workers to support professionals where necessary. At the same time, digitalization, innovation, salary payment systems, information-sharing and knowledge-building are all important, cross-cutting ideas that need to inform programme design and can enable faster, better recovery.
Box 21. The challenges of donor coordination and prioritization in Afghanistan

While chronic insecurity has hampered reconstruction efforts in Afghanistan since 2001, a lack of coordination and conflicting priorities have also critically undermined the opportunity for the international donor community to help the country progress along the path to greater resilience. In early 2019, the US Special Inspector General for Afghanistan Reconstruction cited “inadequate coordination and oversight by donors” alongside the ongoing Taliban insurgency and endemic corruption as major obstacles to effective reconstruction.365

This is not a new problem. A 2012 report by the Overseas Development Institute argued that a significant part of failings in Afghanistan could be attributed to both conflicting donor goals – simultaneously establishing security, combating the opium economy and building state institutions – and conflicting donor practices – for example, a focus by the USA on PSD for rural and agricultural development versus a more ‘developmentalist’ approach by European countries.366

As a UK government review concluded in 2008, a recurring problem in Afghanistan is that “everything is a priority, and yet it is not possible to address all priorities simultaneously”.367 Throughout the 2000s, the USA-led international response focused on security, governance, rule of law and human rights, and economic and social development. But in the words of an International Crisis Group report, this proved to be “overly ambitious”,368 and massive inflows of aid money led to corruption and the consolidation of pre-existing patronage networks.369

A major trade-off has been the need to balance reconstruction efforts between rural areas – the heart of the Taliban insurgency – and cities such as Kabul, where the central government is based. Related to this is the challenge of prioritizing contested areas, where the scale of reconstruction needs is greater, but where levels of insecurity are such that projects may have limited chances of success. Both the Afghan and US governments emphasized the need to develop rural Pashtun-majority areas that were at the heart of the insurgency and win over the support of the local population. However, this has had the effect of alienating other sections of the Afghan population, including Hazara, Uzbek and Tajik communities, which have seen disproportionately less aid.370

The USA’s explicit stabilization approach envisaged military and civilian actors working in close coordination with one another: as American-led forces captured territory from the Taliban, humanitarian and development agencies would hold and build those areas, helping the Afghan government to ‘out-govern’ the Taliban.371 This strategy led to tensions between the US military and USAID, as the latter was pressured to implement a whole range of interventions in challenging security conditions, “even when USAID knew the sequencing was inappropriate and programs would be ineffective”.372

Some progress has been made in Afghanistan in achieving the aims of the 2005 Paris Declaration, which called, among other things, for greater donor harmonization, alignment with national government strategy, and improved monitoring of results and accountability.373 In the health sector, for example, major steps have been taken to improve healthcare indicators and local capacity to run the health system, in large part because of effective donor coordination. This was achieved by channelling assistance to the Afghan Ministry of Public Health through a limited number of donors, primarily USAID, the European Commission and the World Bank, with one donor assigned to be responsible for each province. The Ministry of Public Health, meanwhile, established a streamlined mechanism for channelling funds – namely, the Basic Package of Health Services – which lays out a limited number of health service priorities and clearly defines the required inputs for each sector and measurable indicators of success.374 Nevertheless, challenges remain. A joint 2018 report commissioned by Oxfam and the Swedish Committee for Afghanistan concluded that donor fragmentation in the country is rife.375
Development partners and communities

The Busan Partnership places ownership of development and the identification of priorities with countries themselves. However, during conflict it is not always possible to reach all people through a uniform mechanism. In this case, development partners can support people living in conflict settings through locally delivered processes such as community development, local governance and service delivery systems, and by building institutional capacity.

IsDB can play a vital role in engaging with communities and building social cohesion during conflict and in conflict-prone regions. To build resilience and strengthen conflict management processes and systems, a strong sense of community and social cohesion is of utmost importance, along with accepted modalities for community negotiation and discussion. To build these systems and strengthen community cohesion, communities need to feel empowered and supported to build capacity and skills in leadership, negotiation, conflict management and consultation.

The ultimate aim of community development work should be the strengthening of institutional arrangements as well as negotiating appropriate and inclusive solutions for collective action. Such scenarios also provide opportunities for vulnerable groups to voice their interests. Development agencies as mediators need to support the efforts of vulnerable groups to support their cause while maintaining a neutral stance. The interventions and ways of working should be as close to communities as possible, as seen in the case of the Tamkeen programme in Syria. Improving people’s lives should be the focus of all programme activities, such as essential health and education services, rubbish collection, road clearing, access and security, livelihoods and psychosocial services. However, programmes should be actively inclusive and aim to incorporate conflict reduction elements and build skills in negotiation, leadership and consultation.

Box 22. Community-based development during conflict: Building skills and promoting inclusion

One way to empower communities is to involve them in decision-making processes at the local level and make them feel dignified. This has worked well in a couple of programmes already in the region – for example, with a UK- and EU-supported programme designed to build the governance capacities of local communities through the participatory delivery of services in opposition-controlled Syria.

Tamkeen provided grants to each of 36 communities per six-month cycle, and convened short-term community committees to plan, budget, procure and implement basic services projects funded by the grants. They used a standardized and transparent planning and procurement procedure that met international best-practice standards. Basic services projects to be funded were chosen by the communities themselves via service delivery packages with associated model budgets in education, health, livelihoods, food security and infrastructure; thus they played a key role in decision-making, and the grants were used for the services that were of greatest value to communities.

From 2013 to 2016, Tamkeen supported over 100 education-specific projects, benefitting over 450,000 Syrians, all at the local community level. The programme trained over 1,000 teachers, provided stipends or salaries to almost 2,000 teachers and trained over 4,000 women. It also rehabilitated or equipped 171 schools and 13 teacher training centres and renovated 284 classrooms. More important, it created opportunities for communities to take control of their own development and to build and use decision-making, negotiation and conflict resolution skills.


Another way to engage fairly with communities at the local level is by planning programme activities while conducting a robust conflict analysis before taking any action on the ground. The OECD approach to resilience-building is a good approach to adopt for this kind of purpose, particularly since the situation during conflicts is prone to change rapidly, making it necessary to adjust and regularly update resilience planning. Programme activities – especially resilience planning using methods such as the OECD approach – should incorporate marginalized groups to advance and support community cohesion.

However, there can be critical downsides to community-focused work, and the process is slow, with many challenges. For example, while implementing reforms or prioritizing communities, there is a possibility of bias towards certain communities, even by project workers, including national staff members. To avoid these situations, regular training and supervision to support participating institutions is necessary. All staff need training regularly and often to build and support their skills in conflict-sensitive and inclusion-focused approaches.

Improving people’s lives should be the focus of all programme activities, such as essential health and education services, rubbish collection, road clearing, access and security, livelihoods and psychosocial services.
Box 23. Health systems-strengthening priorities depend on context

Health systems everywhere struggle continually to optimize health outcomes from available inputs, infrastructure and financing. In MENA conflict areas, health systems have broken down or are under severe stress to the point that they no longer function in some areas. However, for many people, the health service was not particularly accessible. They had to travel long distances to consult specialists in large clinics in urban areas, paying on a fee-for-service basis and purchasing medicines from private pharmacies. For many communities, especially those that were impoverished, rural or socially isolated, health services in the pre-war period did not meet their needs.

In restoring systems, investments should aim to re-establish functional services as practicably as possible in the first stage of post-conflict recovery and as close to the community as possible. Investing in community-based services to return local clinics to a functional status is more important than top-down national strategizing or focusing on the central hospital.

Many countries in the MENA region share some common systems challenges based on historical arrangements in which most healthcare resources were channelled to the diagnosis and treatment of acute and chronic diseases by doctors working in large hospitals. In a post-conflict context, there is an opportunity to re-orient healthcare systems around lower-cost, community-based care that will focus on prevention of disease, promotion of health and well-being, the rational use of specialist skills and referral services. The priorities to make this kind of shift include:

- attracting and making better use of nurses and midwives across the region, including task-shifting and attracting more women into nursing and balancing the role of doctors in delivering basic healthcare;
- improving rational access to medicines by strengthening prescribing practices: over-prescribing is inefficient and leads to waste and a risk of resistance;
- more equitable and efficient financing arrangements that prioritize community-oriented services and promote equity, improve efficiency in health service delivery and scale up prevention of common (and expensive) health problems such as diabetes;
- ensuring that out-of-pocket payments do not adversely affect health-seeking behaviour (there are high rates of out-of-pocket co-payments everywhere in MENA); and
- finding a balance between investments in prevention, promotion, detection, treatment, care and disability management: given the rapid rise of non-communicable diseases, and in light of changing dependency ratios, more effort on prevention is needed, rather than the current focus on treatment.
IsDB strategic priorities

Human and social capital are deeply connected and are fundamental drivers and products of resilience and recovery and broader human development. Resilience is the ability of households, communities and nations to absorb and recover while positively adapting and transforming their structures and means of living in the face of long-term stresses, change and uncertainty. Using the lessons learnt, experience gained in other settings and evidence of what works to strengthen resilience, investment to support social and human capital recovery should focus on multiple goals.

In the context of ongoing conflict as well as in the immediate post-conflict period it can be premature to attempt large-scale national programmes to tackle the reform and restructuring of healthcare and education systems, or to consider how social services should be financed and delivered. Not only would such reforms by necessity exclude some partners and could fail to include all groups, they also risk re-establishing outdated or unreformed systems from the past. Furthermore, the necessary skills to deliver services may be unevenly available across the country due to displacement; therefore, absorption capacity will affect the ability to recover in different settings.

Only when a sufficient degree of stability has returned, likely subsequent to a political settlement, and only when the State has recovered capacity and legitimacy can longer-term and more comprehensive national reform take place. IsDB strategic priorities in human and social development are summarized below and shown in Figure 6.

- **Ensuring essential services are available** for all, especially those most in need and those worst affected by conflict. This includes targeting the most vulnerable people with critical life-saving and life-enhancing interventions, and re-establishing utilities, employment schemes and nutrition/food security investments.

- **Investing to restore basic healthcare and education systems** that are accountable, locally owned and appropriate, and of adequate quality, especially focusing on strengthening sustainable systems, restoring institutional capacity and governance.

- **Investing in more inclusive social and economic practices to ensure the inclusion of women, girls and young people**, thus reducing reliance on early marriage, child labour, vulnerability to trafficking, undernutrition, inadequate birth spacing, and domestic and gender-based violence. It could also include recovery from trauma, including mental and psychosocial support for all, but especially children, ex-combatants, women, refugees and IDPs.

- **Supporting economic recovery strategies that maximize investment in livelihoods** (rather than focusing on national GDP) and increase employment and income for as many households as possible.

**Figure 6. Framework for investment priorities in MENA countries affected by conflict**

- **Investing in youth** through youth-focused schemes, policies and training that in turn create employment opportunities, build skills and promote engagement among youth, thus contributing to social cohesion.

At the same time, these investments should be undertaken in ways that are appropriate to the context: conflict-sensitive, focused on peacebuilding and reconciliation, and supporting the integration of displaced and refugee populations to build community harmony and social cohesion. These categories are further explored below.
Restoring essential services: Largely input-based interventions:

- Support the delivery of basic healthcare services that prioritize community-based prevention, treatment and care for women, children, people with disabilities, and elderly people. Critical services include reproductive health, maternal and child health, and care for communicable and non-communicable diseases:
  - Immunization campaigns
  - Pharmaceutical and medical commodities
  - Other inputs such as vehicles, cold chain and diagnostic equipment
  - Training and human resources programmes, including community health workers

- Support the delivery of critical community public health services to prevent disease and re-establish basic services: trucks and fuel for rubbish collection, critical utilities such as clean water, sanitation services, safe roads, lighting

- Prioritizing getting children back into school and developing fast-track education strategies for young adults (no lost generation):
  - Teacher salaries, textbooks, materials and supplies for an immediate start to education
  - Basic and immediate school safety and security measures (replacing glass, desks and chairs, toilets and fencing)

- Schemes to incentivize the inclusion of girls, children with disabilities, and refugees into services, especially education, and into broader society

- Psycho-social and mental health programmes to support trauma management, especially for children but for adults as well where possible

- Basic hospital functionality:
  - Reconstruction of essential services
  - Surgical capacity
  - Laboratory and diagnostic services
  - Morgue and other hospital functions

(Re)Building strong systems: Mainly medium- to longer-term investments to support institution- and capacity-building in the social sector:

- Longer-term, post-conflict education systems-strengthening, including curriculum reform, accreditation of schools and teachers, and teacher training schemes to improve quality and build teaching skills – for example, to help teachers teach a wide range of abilities in the same age group

- Health systems-strengthening that builds more community-focused and adaptable services based on smaller, accessible healthcare units

- Restoration of national manufacturing capacity – for example, of pharmaceutical products in Syria or medical supplies
• Establishment of schemes that support the recovery of human resources that are appropriate to the context and create pathways for under-trained workers to fast-track to a recognized qualification

• Community services, including social protection, cash grants for entrepreneurs, women’s clubs

Building inclusion: Short-, medium- and longer-term programmes to strengthen inclusion and leave no one behind:

• Investment in programmes that incentivize keeping children in school or for older youth to return to school for more education and training, delaying employment and marriage

• Support to social protection programmes, including cash transfers for minimum incomes and social safety nets, food banks and other schemes to reduce poverty and destitution

• Community security and safety schemes (lighting, neighbourhood watch, and school, clinic and market security guards)

• Programmes to support community cohesion and reconciliation and the integration of new groups – notably, IDPs and refugees

Investing in livelihoods: Short- and medium-term actions to stimulate employment, secure livelihoods and expand economic activity in the informal economy:

• Support to entrepreneurial schemes, also linked to employment opportunities, to support women’s access to the economy and the progression from education and training to livelihoods and employment for youth and young adults

• Improved food security through support to the rural economy, de-mining to enable land to be used again, safety and security interventions, road repair and local market facilities; these interventions are often delivered in conjunction with employment and livelihood schemes

• Community engagement and empowerment, developing community-based systems capacity, participation and accountability

Investing in youth: A cross-sectoral range of programmes to address the immediate and short-term needs of young people:

• Flexible programmes to encourage youth back into school or college to complete qualifications and build skills:
  - Grants and bursaries
  - Part-time employment schemes
  - Access to low-cost loans for tuition

• Technical and market-driven vocational training targeting youth, to provide employment opportunities and specialized skills leading to employment

• Promoting youth engagement by forming business associations and cooperatives to increase competitiveness, build a sense of community and promote collaboration.

• Psycho-social support and community-based social clubs and networks to build participation and inclusion

• Youth-focused trade agreements by governments to stimulate key sectors.
4.2 Role of Private Sector in Reconstruction and Recovery in MENA

Economic fragility is a core component of the syndrome affecting FCS in the MENA region. Underlying economic challenges – including a small and undiversified private sector, limited employment opportunities and a weak regulatory environment – are impediments to sustained and equitable economic growth and of themselves, which have been made worse by years of violent conflict. In addition, these challenges have a negative impact on the other dimensions of fragility, compounding weak state legitimacy and capacity, exacerbating horizontal inequalities and societal fragmentation, and fuelling violent conflict.

Developing an effective and independent private sector is an important step for countries looking to progress along the fragility–resilience continuum. PSD contributes to building up the four types of capital that are essential for improved resilience. In the short term, it can deliver a visible ‘peace dividend’ in the form of jobs and income for war-weary populations (financial capital), and the reconstruction of essential infrastructure (physical capital). In the longer term, meaningful employment and better social infrastructure can facilitate sustainable and equitable growth, better education and health outcomes (human capital), and collaborative and constructive interactions between different societal groups (social capital). By facilitating these outcomes, governments can vastly expand revenues and – crucially – legitimacy in the eyes of citizens.

However, as numerous case studies demonstrate, these transformations are hard to achieve. Among other factors, violence, political instability, and resistance from elites all act as major constraints to PSD. Moreover, even if economic growth can be achieved through an expanded private sector, there is no guarantee it will lead to greater social cohesion, resilience and lasting peace. Instead, PSD interventions can exacerbate underlying conflict drivers – for example, by concentrating the benefits of economic growth in the hands of a few, deepening horizontal inequalities and further undermining social cohesion.

The scale of the task is, therefore, considerable. This chapter reviews the opportunities and challenges for PSD in Iraq, Libya, Syria and Yemen, and the ways in which it can contribute to peacebuilding and improved resilience. First, it reviews some of the major problems that characterize FCS economies. Second, it reviews the current research on various PSD strategies available to policymakers and donors, focusing on support to SMEs, global value chain development, FDI, SEZs and public–private partnerships (PPPs). Throughout, examples are provided of how these strategies have been used in other contexts. Third, it provides a series of tentative recommendations for future engagement in MENA.

The economic challenges of FCS

FCS economies typically exhibit a number of similar characteristics which inhibit sustained and equitable growth and compound other dimensions of fragility. These include poor performance against a number of standard economic indicators, such as large fiscal and trade deficits, debt arrears, and lower per capita income with significant regional disparities. FCS economies are generally undiversified and reliant on one or two primary commodities, dominated by State-owned enterprises, with a limited official private sector characterized by very small enterprises that often operate in an informal or ‘grey’ zone. Businesses suffer from limited access to credit and infrastructure; a legal and regulatory environment where laws are either inadequate or poorly enforced, and a workforce with limited education and skills. These issues are compounded by a number of broader political economy challenges, including elite capture, networks of patronage – for example, with credit only provided to certain businesses – and political instability and insecurity, which act as a major constraint on both domestic and foreign investment.

The promise of PSD

These economic problems are both a cause and a result of fragility and violent conflict; they are intricately bound up with the other dimensions – social, environmental, political and security – of fragility. An economy that relies almost exclusively on one primary commodity, as is the case with Iraq and Libya’s dependence on oil, is vulnerable to shocks as the market rises and falls. Meanwhile, where economies...
and growth are narrowly based, benefitting a small elite and excluding the majority of the population, the State loses legitimacy and comes to be seen as a resource that politicians can plunder for personal benefit. When exclusion from the benefits of economic growth falls along identity lines, horizontal inequalities and societal divisions are reinforced, weakening social capital.390 Earlier research suggested that participation in violent conflict was an occupational choice that could be remedied through improved access to employment. This has formed the basis for a lot of donor interventions, particularly disarmament, demobilization and reintegration programmes, that focus on finding jobs for former rebel fighters.391 It has also given rise to an assumption that economic growth will inevitably lead to peace.

But the economic problems facing FCS are not easily solved. Each of the four MENA case study countries has at various points made PSD the cornerstone of domestic reform policies, but progress has stalled. In addition, the empirical evidence linking unemployment and violence is lacking, in part because in conflict-affected countries it is not clear that it is those people without jobs who are the ones participating in violence.392 Moreover, PSD can in fact exacerbate underlying drivers of conflict and fragility – for example, by enriching a narrow segment of society and reinforcing horizontal inequalities.393 On its own, therefore, PSD is not a panacea. Economic growth and job creation can contribute to a move away from fragility to the extent that they can contribute to resilience. PSD contributes to building up the four types of capital that are essential for improved resilience: human, social, physical and financial.

Figure 8. How PSD can build resilience across the four types of capital

Private-sector development
- Macro-level interventions
- Support to SMEs
- Global value chain development
- Trade facilitation
- FDI

Employment

Financial capital
- Wages and livelihoods
- Repaired markets and investments
- Government revenues

Physical capital
- Hard infrastructure (roads, bridges, electricity)
- Social infrastructure (hospitals, schools etc.)

Human capital
- Education and skills
- Health, nutrition and well-being

Social capital
- Collaborative interactions between individuals at work/ in the marketplace
- Greater trust in government
In the short term, PSD can deliver a visible ‘peace dividend’ in the form of jobs and income for war-weary populations, and tax revenues for governments (financial capital). It also facilitates the reconstruction of essential infrastructure, such as road and electricity networks (physical capital) that are essential for sustained economic growth. Over the longer term, rebuilding schools and hospitals creates the skills needed by the private sector (human capital), which are in turn further developed by the creation of more specialized jobs. Finally, through increased contact with other social groups in the workplace and marketplace, the private sector can foster greater trust and bonds between groups (social capital) that are essential to a cohesive society and destroyed by violent conflict. By helping to facilitate these outcomes, States and governments can vastly expand revenues and – crucially – their legitimacy in the eyes of their population.

Viewed in this light, increased employment through PSD can be an important yardstick of progress towards greater resilience, but only if that employment is enjoyed by the population as a whole, including groups that have traditionally been marginalized and thus participated in violent opposition to the central government.

Box 25. The challenge of PSD in post-war Afghanistan and Iraq

The emphasis on creating a strong and independent private sector in countries emerging from violent conflict is not new, and was a central component of US reconstruction policy following the wars in Afghanistan in 2001 and Iraq in 2003. But despite the emphasis placed on PSD by many donors, progress in the two countries has been slow, and often disappointing.

In Iraq, at least $1.82 billion was spent on the non-oil economy by the USA alone, which undertook a range of different interventions, including reform of the financial sector, providing microfinance to SMEs, reforming State-owned enterprises, and institutional reform to promote private enterprise. Yet, more than 17 years later, little progress has been made in developing the non-oil private sector or in diversifying the economy away from its dependence on hydrocarbons. Instead the oil-funded public sector has continued to grow. A World Bank study identified insecurity, political uncertainty and inadequate mechanisms for mitigating risk as the major reasons preventing greater investment by foreign and domestic private-sector actors.

In Afghanistan, the US government watchdog SIGAR concluded in 2018 that early hopes for PSD were unrealistic and failed to take into account the country’s economic and security environment and institutional capacity. First, efforts to improve the enabling environment foundered because of limited governance capacity, a lack of transparency and a weak judicial system. Second, expanding access to finance failed because local banks continued to rely on external assistance. Third, significant domestic and foreign investment failed to materialize because of the poor security situation. Fourth, regional trade promotion led to cheap imports flooding markets and harming domestic producers. Finally, despite some successes, support to SMEs resulted in aid dependency.

SIGAR’s conclusion was damning: “U.S. financial aid at times encouraged corruption, and kept non-viable enterprises afloat. Above all else, the private sector needed stability and certainty to develop, and the overall absence of these factors limited foreign and direct investment. It would have been very difficult for robust and sustainable economic growth to take root in an environment with such pervasive uncertainty.”

Support to SMEs

One solution is for donor interventions to focus on support to SMEs, which can continue operating in the absence of a sound legal and regulatory environment, and even in the absence of a properly functioning State.

Targeting SMEs is an attractive option for a number of reasons. First, despite their small size – over 95 percent have fewer than 50 employees – SMEs make up the bulk of the private sector in MENA and are thus a crucial existing source of livelihoods and employment, particularly for women and rural populations. In Yemen, for example, over 97 percent of firms have two employees or fewer, and SMEs employ over 600,000 workers, including 30,000 women. Second, SMEs are also far less likely to be part of patronage networks than large businesses. They will, therefore, often have greater interest in peacebuilding and reform efforts. Third, the local private sector typically continues to operate even during periods of active conflict, even when formal state institutions have disappeared or weakened. As a result, SMEs can become an important vehicle for reconstruction and job creation efforts as countries begin to emerge from violent conflict, where the State has limited capacity, willingness or geographical coverage to provide them. In Somalia, for example, after the central government collapsed in the wake of armed conflict in the early 1990s, local businesses stepped in to provide essential services, including the provision of water (see Box 26).

Support to SMEs can be combined with other activities that complement PSD and that can be implemented even in the midst of ongoing violence. For example, large-scale public works or cash-for-work projects that employ significant numbers of people have the dual impact of providing (temporary) livelihoods to war-affected populations and rebuilding and repairing essential infrastructure. As the example of Somalia shows, these programmes can be run through the local private sector. They can also be combined with training activities to build the long-term capacity of both the local population (e.g. training individuals on construction) and SMEs (e.g. financial management training).

SMEs in fragile settings suffer disproportionately from the major constraints affecting the economy, including political instability and an unreliable electricity supply. A persistent problem is the difficulty faced by SMEs in obtaining credit, which is often restricted to a limited number of large firms. To enhance access to credit, donor interventions could include capacity-building for banks to strengthen credit risk assessments, which would help banks looking to provide loans to SMEs, while capacity-building for SMEs themselves would improve their transparency and thus encourage banks to grant them loans, as demonstrated by the Kafalat initiative in Lebanon. Providing microfinance and other forms of credit to SMEs can also be integrated into a more comprehensive donor PSD strategy that includes a focus on macro-level reform. Despite the disappointing impact overall of US efforts...

Box 26. Harnessing the local private sector in Somalia to provide essential services

In the immediate aftermath of violent conflict, the State may lack the capacity or geographical coverage to carry out reconstruction of physical infrastructure – or provide essential services – and international investment is likely to be limited. However, following the collapse of the central government in Somalia in 1991, the local private sector took over the management of a number of public services, including water provision. International donors subsequently looked to build on this, and beginning in the late 1990s a number of PPPs were established, with private businesses managing urban water systems under concession agreements. Compared to public utilities, the PPPs were generally able to expand service provision, increase revenues and reduce downtime.
Box 27. USAID’s microfinance programmes in Iraq

Despite the disappointing overall impact on international efforts to promote PSD in Iraq after 2003, the USAID Tijara programme and its predecessor Izdihar were described by a World Bank report as a “success” that challenges assumptions that security and political stability are prerequisites for microfinance interventions.403

Launched in 2008, Tijara was a $192.5 million programme that aimed to support increased access to finance for SMEs, provide business and financial management training, and improve the overall enabling environment by reforming trade and commerce laws to attract investment. By the programme’s completion in 2013, microfinance lending in Iraq had grown from 32,683 active clients and an outstanding loan portfolio of $46 million in 2008 to more than 102,000 active clients and an outstanding loan portfolio of $149 million in 2013. It established the Iraqi Company for SMEs, helping to grow private bank lending from 37 guaranteed SME loans, worth just under $1 million, to 6,400 loans worth $88 million guaranteed.404

Tijara included a specific focus on supporting what it termed “financially excluded segments of Iraqi society”, including youth, IDPs, women-headed households, and ethnic and religious minorities. Its Iraqi Youth Initiative, for example, trained 5,629 young people, 1,695 of whom were subsequently able to access finance to start or expand a business. The Iraqi Vulnerable Groups Support Initiative, meanwhile, provided 4,538 loans, worth $22.1 million.405

USAID concluded that Tijara “accomplished most of its goals and had a significant impact on Iraq”.406 However, as Dudwick and Srinivasan (2013) point out, “defining and measuring success in such environments is not straightforward […] While micro-finance interventions have succeeded in providing efficient service to large numbers of poor people, there is less evidence regarding the degree to which they contribute to peace building and longer-term economic recovery.”407

to develop and diversify the Iraqi private sector in the years after 2003, the Tijara programme achieved some notable successes413 (see Box 27).

SMEs in MENA will require considerable support to recover from the effects of prolonged violent conflict. In Yemen the ILO estimated that 5 percent of the country’s SMEs had been totally destroyed by the effects of war, while 22 percent had suffered major damage, and 58 percent minor damage as of 2018.414 An evaluation carried out by the Netherlands Institute of International Relations also suggested that programmes supporting SMEs had yielded mixed results, in large part because donors fail to understand the extent to which local businesses are embedded in local conflict dynamics. It points out that SMEs often prioritize coping mechanisms over efforts to realize their growth potential. As such, local enterprises may come to rely on certain features of the economy – such as networks of patronage – that PSD efforts may see as an obstacle to be overcome. Changing these existing practices may inadvertently exacerbate instability in the system, rather than alleviate it.415

Global value chain development

Helping the local private sector to integrate into global value chains can serve as a complementary approach to SME support. Global value chain development yields important economic benefits – for example, by helping local enterprises to grow and facilitating greater trade and increased exports. It can also contribute to social cohesion and peacebuilding, because, at their core, value chains rely on and develop networks of trust between the different components of the chain. As with support to SMEs, it is not necessary to wait for full and comprehensive peace in a country before launching an intervention.

Existing and potential exporters in MENA – typically SMEs – face a number of challenges in entering value chains and developing exports. Not only do these firms face challenges due to weakened institutions and support schemes – as well as a shortage of skills and damaged trade infrastructure due to conflict – they also have to identify appropriate target markets, product segments and selling channels on their own, and develop a good understanding of who their
Box 29. Lebanon’s Kafalat scheme: Providing guaranteed loans to SMEs

Kafalat is a State-sponsored loan guarantee company, set up in 1999 by the Lebanese government and partly owned by private Lebanese banks, that supports SMEs involved in industry, agriculture, tourism, traditional crafts and technology. Kafalat supports SMEs to access commercial bank funding by providing loan guarantees, based on business plans or feasibility studies that show the viability of the proposed activity, thus reducing the need for collateral. It includes a special sub-scheme, funded by the EU, that focuses specifically on innovative SME start-ups.

Kafalat is the second largest guarantor for SMEs in the MENA region; it is considered the single most important facilitator of entrepreneurship in Lebanon. Despite its successes, the scheme has failed to completely mitigate the impact of political uncertainty on the willingness of commercial banks to provide loans. During the first quarter of 2019, loans made through the Kafalat scheme were down 80 percent compared to the previous year, with Lebanon’s political uncertainty and fears of an economic crisis discouraging banks from issuing loans.

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Box 28. IsDB’s Palestine Deprived Families Economic Empowerment Programme (DEEP)

IsDB’s DEEP in Palestine uses a specialized and well-tested targeting and assessment process to identify eligible families and design interventions. The selected households have the opportunity to establish micro-enterprises through capital investment and microfinance instruments that safeguard the families’ interests and investments.

DEEP is an intervention that targets households that have sufficient human and social capital to graduate from poverty by managing their own micro-enterprise. It completed its first generation with a remarkable contribution to the steadfastness of the Palestinian people on their land. It has completed 14,300 commercial projects and has empowered over 23,756 families since its inception in 2006. These projects have created employment opportunities for more than 15,000 additional families, and more than 45,000 paid job opportunities for young people and women. Thus, the DEEP programme became the spearhead in combating poverty, marginalization and social exclusion, strengthening the core capacities of the national economy and stabilizing the Palestinian society on the ground while living with dignity.

New strategic approaches are currently being adopted by the programme, including community mobilization for economic empowerment, establishing incubators for economic empowerment, and partnering with local community-based organizations, cooperatives and international NGOs on youth employment and group projects.
Box 30. Supporting coffee value chains in post-conflict Rwanda

Coffee was a major source of foreign exchange for Rwanda, but the sector declined in the 1990s due to government control. Following the end of the civil war in 1994, the Rwandan government enthusiastically supported PSD; a USAID-funded initiative helped it to develop a new coffee strategy, upgrade technical capacity and establish coffee-washing stations, which were then developed by offering guaranteed funds to potential private-sector investors. Producers and other participants in the value chain attended trade fairs and conferences abroad, helping them to build up contacts and deeper knowledge of the coffee industry.

As a result, by 2006, coffee-washing stations had created 5,000 new jobs, and prices paid by these stations to farmers had risen almost threefold. Between 2000 and 2010, the incomes of participants in the value chain had risen by 82 percent more than the incomes of a comparable group. Moreover, even though peacebuilding had not been an objective of the intervention, there were indications that the increased contact generated between different participants in the value chain had boosted positive attitudes to post-conflict inter-ethnic reconciliation.


Trade facilitation

Creating sustained economic recovery in countries emerging from violent conflict relies in large part on expanding trade, but achieving this is difficult for a number of reasons, including the reliance of many FCS economies on primary commodities for export. Moreover, violent conflict has extremely negative impacts on trade, with trade levels falling by up to 25 percent in the first year of a civil war, and the effects often still felt 25 years later. In Libya, following the resurgence of violence in 2014, oil production dropped from 1.42 million barrels per day to 0.39 million barrels per day in 2016, severely impacting trade.

The challenge is compounded by the fact that, even prior to the most recent conflicts since 2011, MENA had one of the lowest levels of intra-regional trade in the world. Today, MENA accounts for 3.9 percent of global GDP, but only 1.8 percent of the world’s non-oil trade. There have been a number of efforts to improve regional trade integration, most notably the Arab League-led Pan-Arab Free Trade Agreement (PAFTA) in 2001, which committed countries to remove the majority of tariffs by 2005. Separately, Morocco, Jordan, Egypt and Tunisia are signatories to the 2004 Agadir Agreement for Establishment of a Free Trade Zone, which was supported by the EU with a view to creating a Euro-Mediterranean free trade area. Although both PAFTA and the Agadir Agreement have boosted member country exports by around 24 percent, the broader benefit to MENA economies has been limited.

The most successful initiative is that of the Gulf Cooperation Council, which has created a customs union and a common electricity grid, although the member countries have so far failed to harmonize tax policies or create a common currency.

In 2009, the International Trade Centre launched EnACT, a technical assistance programme that aimed to build a competitive and diversified export sector in MENA, with a particular focus on empowering women and young people in export-focused SMEs. EnACT operated in Algeria, Egypt, Jordan, Morocco and Tunisia.
Box 31. The opportunities and challenges of trade integration in post-conflict Cambodia

A peace agreement in 1991 brought 30 years of violent conflict in Cambodia to an end. Much of the country’s physical infrastructure lay in ruins, while government capacity and the regulatory environment were extremely weak. However, by pursuing open trade and investment policies – including the removal of non-tariff barriers – and developing a strategy based on the export of garments that included fiscal support for industry, Cambodia ushered in a period of rapid growth. Averaging 7 percent per year, the economy has grown faster than in almost any other post-conflict society.

The share of GDP contributed by the traditionally dominant agricultural sector fell from 55.6 percent in 1990 to 22.9 percent in 2012, while manufacturing grew from 5.2 percent to 15.1 percent over the same period. As of 2014, exported garments dominated manufacturing, accounting for Cambodia’s largest source of foreign exchange. Garments and tourism now account for 71 percent of Cambodia’s exports and services, and provide jobs to one seventh of the workforce.

Manufacturers initially enjoyed preferential access to the US market, but by establishing a reputation for quality products they were able to expand into Europe and Asia. Cambodia has also diversified into other export manufacturing, such as footwear, and established SEZs to attract multinational firms operating in neighbouring Thailand.

Despite these successes, Cambodia’s open economic policies have also brought a number of challenges. The country’s export success was built on paying very low wages, which did not necessarily equate to improved worker well-being (human and social capital), and today the country faces growing competition from neighbouring countries, particularly as Cambodian workers demand higher salaries and improved conditions. Meanwhile, inflows of foreign capital have created enormous disparities in wealth across the country, as well as political patronage networks. Greater openness has also left Cambodia more vulnerable to economic volatility, with the country suffering in particular from the 2008/09 recession.

Priorities for the Cambodian government include upgrading infrastructure and logistics. High transport and electricity costs and the time taken for goods to clear ports and customs often reduce Cambodia’s competitiveness. Second, support to the education system is required to improve productivity – a frequent complaint of foreign firms is the mismatch between workers’ skills and education levels, and the requirements of private-sector employment. Finally, governance reforms are needed to improve Cambodia’s ‘ease of doing business’ ranking. Corruption, insecure property rights and opaque customs regulations are major impediments. Establishing SEZs to overcome these problems have had successes, but they typically exclude small-scale and rural enterprises, which make up the bulk of the domestic private sector.

Box 32. Enhancing Arab Capacity for Trade (EnACT)

In 2009, the International Trade Centre launched EnACT, a technical assistance programme that aimed to build a competitive and diversified export sector in MENA, with a particular focus on empowering women and young people in export-focused SMEs. EnACT operated in Algeria, Egypt, Jordan, Morocco and Tunisia – countries with youthful populations, industrial potential and geographical proximity to European markets.

EnACT focused on removing non-tariff barriers through a number of activities, including:

- improving the range and quality of goods and services offered by local SMEs;
- building market links by improving SME access to new markets and purchasers (cutting out brokers and middlemen);
- providing SMEs with market analysis and research, and helping them to network with trade support institutions and regional trade bodies; and
- facilitating the overall business environment by empowering regional trade support institutions to publicize and explain the benefits of regional trade opportunities.

The programme identified opportunities for expanded regional trade that were not being exploited because of SMEs’ lack of knowledge and trade opportunities. This included facilitating the export of dates from Algeria to Egypt to be used in biscuits and snack bars for export to Asia, and helping a company in Tunisia to export buckles for high-end leather bags in Morocco, which were then exported globally.


Indeed, the obstacles to improved trade integration in MENA lie predominantly in non-tariff barriers, including technical regulations and burdensome customs procedures. Globally, improving border administration and transport infrastructure would boost exports by an estimated $1.6 trillion, and in MENA there is a particular need to focus on this in Iraq, Libya, Syria and Yemen, where much infrastructure needs to be rebuilt from scratch. This would include improving logistics and cross-border infrastructure, including roads, ports, airports and warehousing. For the former, Tunisia has led the way in the region with its focus on expanding and improving its port facilities.

Micro-level interventions to support trade facilitation can involve working directly with SMEs – for example, by focusing on capacity-building, improving export competitiveness, and improving value chain linkages with foreign-based consumers. Initiatives carried out by the International Trade Centre and the World Bank have improved the ability of SMEs in MENA to engage in regional and international trade, and could be expanded to other countries in the region.

As with other aspects of PSD, however, expanding trade to improve economic growth will not automatically contribute to peacebuilding or greater resilience. Absent a lasting peace settlement in Libya, for example, primary commodities will continue to dominate exports and will retain the potential to fuel renewed violent escalations. The case of Cambodia’s post-conflict transformation to an export-oriented economy highlights some of the positives and negatives associated with greater trade integration.

Attracting Foreign Direct Investment (FDI)

To secure lasting growth and avoid falling into a debt trap, countries emerging from violent conflict must not only achieve net exports through expanded trade, they must also begin to replace aid with FDI, defined as an investment involving a long-term relationship and control by an investor in one economy in an entity in another economy. FDI can help to address underlying causes of fragility and contribute to peacebuilding, but it also has the potential to exacerbate violent conflict. As with PSD in general, it is the type of FDI and the way in which it is generated that matter for building resilience.

In the short term, FDI flows tend to increase rapidly post-conflict, primarily in the construction and services sector as physical reconstruction efforts get under way, although most of this initial investment is provided by multilateral funding. This can generate jobs, wealth, and tax revenues for governments, and facilitate the repair of essential infrastructure, creating a peace dividend. Investment in both enabling and social infrastructure not only provides important...
Box 33. IsDB’s BRAVE project in Yemen

The crisis in Yemen has had a major impact on the country’s private sector. As of mid-2018, 62 percent of SMEs and 17 percent of large businesses had shut down, 73 percent of enterprises complained of a lack of access to finance, and 55 percent had laid off staff. Armed conflict has further weakened the business climate by resulting in an absence of public electricity, poor security and instability, widespread physical damage and a reduction in imports.

To support the continuity of those remaining private businesses, IsDB’s BRAVE project has provided special business continuity training and grant-matching assistance for capital expenditure to SMEs and value chain lead firms. This has helped businesses not only survive in conflict but also to create new business opportunities and jobs, and secure improved access to finance from local banks.

The early results of BRAVE have been encouraging. As of July 2018, 528 Yemeni businesses had received training, and 479 had completed business continuity plans; 15,614 jobs had been sustained, and 62 women entrepreneurs had received support. Value chain lead firms diversified their products and invested more than 50 percent of grant money in new businesses; in the health sector, for example, lead firms introduced new technology to significantly improve service delivery.

IsDB identified five key lessons from BRAVE that can inform the future scale-up of the project and its application in other FCS environments: 1) PSD interventions that target value chains can build connections between groups and regions divided by armed conflict, thus improving social capital; 2) even in the absence of fully functioning State-level governance, PSD interventions can build good economic governance; 3) direct support to firms and market-based local delivery can facilitate the reconstruction of the essential hard infrastructure needed for business and community resilience; 4) PSD interventions can help build soft infrastructure to create the skills and education needed by the local private sector; and 5) inclusive economic development – including sustaining jobs and expanding value chains – is possible even in the midst of violent conflict.

In addition, the project highlighted a number of important lessons learnt for implementation, including the need to: 1) work through a neutral local execution agency and develop its capacity; 2) decentralize service delivery; 3) partner with local banks to deploy funds, to improve access across regions; 4) distribute decision-making powers through balanced and transparent governance; 5) identify the most pressing constraints to be addressed; and 6) make appropriate use of ICT to ensure successful remote monitoring and evaluation.

Source: Adapted from Islamic Corporation for the Development of the Private Sector (2018) ‘Designing Effective PSD Interventions in Conflict Affected Settings, Early Lessons from Brave Project, in Yemen’. Islamic Corporation for the Development of the Private Sector, Jeddah.
Box 34. Tunisian PPP pipeline

Despite witnessing Arab Spring protests in 2011, Tunisia has managed to achieve a peaceful political transition and avoid the violence that has affected other countries in MENA. Nevertheless, some latent drivers of fragility persist, security risks remain, and the country now faces the challenge of achieving sustained economic growth, a vibrant private sector and moving away from a legacy of crony capitalism. A significant gender gap in employment, regional disparities in employment and poverty, and high youth unemployment – 33 percent of young people are not in education, employment or training – are all constraints. According to the European Bank for Reconstruction and Development (EBRD), another major problem until recently was limited political will to pursue major infrastructure projects through a PPP model. However, following a new PPP law in 2015, the EBRD says that a healthy PPP pipeline has been identified, with a focus on transport, logistics and energy, and municipal infrastructure. These include:

- a $28.3 million greenfield logistics zone, to support the development of the port of Sfax – Tunisia’s second largest port – and to act as a logistical node;
- a $104.9 million brownfield bulk terminal in Bizerte intended for unloading, storage and handling of pet coke for use in the cement industry;
- a $14.3 million logistics and free trade zone in Ben Guardane, near the Libyan border, targeting retailers, and traders from Tunisia and Libya, based on existing cross-border trade between Tunisia and Libya, and with storage, including cold storage, and packing goods for shipping; and
- a $1.17 billion project to develop a new container terminal in the deep-sea port of Enfidha, north of Sousse, that is expected to create up to 53,000 new jobs.

representing just 1 percent of global flows, and over five times less per capita than the world average. International firms tend to be cautious, pursue small-scale projects in limited geographical areas (often not those most affected by conflict) and shy away from the manufacturing sector, which is more embedded in the local economy and, therefore, vulnerable to shocks. Countries suffering from violent conflict can and do attract significant flows of FDI, but these are typically concentrated in the natural resource sector. Adverse political shocks – including conflict – are negatively associated with FDI into manufacturing.

Preconditions for attracting FDI
Developing and mobilizing a strategy for attracting FDI does not need to be deferred until peace is fully consolidated, but a number of characteristics of FCS economies – including inconsistent government policies and a turbulent economy with a poor future outlook – limit foreign investment outside the primary resource sector. A poor regulatory-legal framework, including property rights, private-sector financial autonomy and the unfettered right to operate for profit, also holds back FDI. Instead, money tends to flow to the most affluent and stable countries: comparatively more developed economies and resource-rich countries typically receive greater investment. By contrast, other countries often find themselves in a race to the bottom to achieve favourable rankings across indices measuring ease of doing business and transparency, and, therefore, attract inward flows of capital, even though legacy national debt and chronic instability continue to act as impediments.

To attract FDI, countries need to ensure that the following essential preconditions are in place:

**Box 35. Aqaba SEZ, Jordan**
Along with the Jebel Ali Free Zone in Dubai, the Aqaba SEZ in southern Jordan is widely seen as an example of a successful SEZ in the MENA region. The zone was established in 2001 as a response to a period of weak economic performance in the Kingdom in the late 1990s, and aimed to attract international investments through a range of fiscal incentives (e.g. a 5 percent tax rate on all net business income, compared with 35 percent in the rest of Jordan; no social services tax; and no customs duties on imports) and non-fiscal incentives (e.g. no foreign equity restrictions on investments; the availability of high-quality transport infrastructure, including an international airport; streamlined labour and immigration procedures; and full guarantees on ownership).

By 2018, the Aqaba SEZ had attracted an estimated $20 billion in investment (a target of $6 billion had originally been set for 2020). Within the zone, the Aqaba International Industrial Estate has been central to industrial development, attracting around $600 million since 2005, and creating an estimated 3,500 jobs through over 100 companies. Meanwhile, after ownership of Aqaba port was transferred from the Jordanian Ministry of Transport to the Aqaba Development Corporation, which entered into a partnership with a private firm, problems such as waiting times for ships at berth and congestion at the container terminal were overcome, and the Aqaba terminal was rated as one of the three best terminals in the Middle East and Indian subcontinent by Lloyds.

A number of factors explain the success of the Aqaba SEZ. First, the project had the backing of King Abdullah, who drove forward the vision despite significant opposition from within the government. For example, his backing overcame opposition to the idea of a PPP to improve the port. Second, the zone is managed by a financially and administratively autonomous government institution in the form of the Aqaba Special Economic Zone Authority. Third, the Aqaba Development Corporation, which was mandated with ownership of the port, was not subject to the demands of elite stakeholders in the same way the Ministry of Transport had been.
• A powerful advocate of market liberalization with the ability to steer the policy agenda: In Jordan, for example, King Abdullah’s personal involvement in the Aqaba SEZ was a key factor in its success.

• A clear constitutional commitment to reduce internal conflict between competing government agencies: In several instances in sub-Saharan Africa, for example, rival government departments have viewed FDI attraction policies as opportunities to create rival fiefdoms.

• Implementation of best principles for legal-regulatory frameworks to attract FDI in its various forms, ranging from privatization, direct takeovers, joint ventures and PPPs.

• Sufficient institutional capacity with clearly delineated roles and responsibilities, both to implement a range of coherent development policies and to attract and mobilize FDI PPPs: This would include:
  o a cross-ministerial committee for FDI PPPs, chaired by the Prime Minister, providing guidance to a separate and independent regulatory entity;
  o an overarching supranational entity tasked with attracting FDI, and reporting directly to the cross-ministerial committee;
  o subnational entities that are involved in project identification, pre-screening, and coordination with other agencies during an initial feasibility assessment, as well as in monitoring and evaluation (M&E) once FDI projects have commenced, and
  o the ability to identify and agree key performance indicators, risk mitigation strategies, a robust M&E framework (with milestone reviews), and institutional budgets and timelines.

• Clearly defined and realistic FDI targets related to the country’s inherent or realistically created competitive advantage: A commonly cited reason for the failure of many FDI schemes in sub-Saharan Africa is that they have not focused on the comparative advantages of the host country. Export processing zones have suffered from the competitiveness challenge with respect to manufacturing, owing to issues of geography, scale and transaction costs. PPPs should be located in geographical areas close to natural resources, a skilled workforce and existing logistics networks.

FDI attraction programmes

FDI can take many forms, ranging from privatizations and direct takeovers, to joint ventures and PPPs.452 PPPs are an increasingly popular option for governments looking to deliver infrastructure projects more quickly and cost-effectively than through State-owned enterprises.453 The PPP model falls between traditional procurement and full privatization, with the private enterprise taking responsibility for the design, financing, building or repair of infrastructure and the management of the asset, but with ownership remaining with the State.454

In MENA, privatization of State-owned enterprises has proved to be unpopular politically,455 and has largely failed to deliver on promises of lower prices and better services for consumers. Instead, PPPs have become a strategic pillar for existing and greenfield mega-investments in MENA, for both infrastructure and the commercialization of traditional public services. They represent a less contentious mode of FDI that allows governments to retain ownership of assets, participate in the upside of investments, ensure a degree of local employment and manufacturing, and ensure external finance and international expertise.

In the immediate aftermath of conflict, PPPs represent an important tool for rebuilding damaged infrastructure, creating jobs, sharing risk between stakeholders, and offering a more transparent, speedy and efficient alternative to both government and international agencies.456

Beyond immediate reconstruction activities, PPPs can be a critical tool for financing mega-infrastructure projects, such as the construction of ports (see Box 36 for a discussion of the development of the Aden free port in Yemen) and for the financing of SEZs. A number of individual models fall under the bracket of SEZs – free-trade zones, export-processing zones, industrial parks, economic and technology development zones – but all share certain characteristics: geographically delineated, operating under a single management or administration, providing benefits for investors within the zone (often a special regulatory regime and improved infrastructure), and a separate customs area with streamlined procedures.457 SEZs can be an effective instrument for attracting FDI (primarily in the manufacturing sector), creating jobs and

PPPs represent a less contentious mode of FDI that allows governments to retain ownership of assets, participate in the upside of investments, ensure a degree of local employment and manufacturing, and ensure external finance and international expertise.
generating exports and foreign exchange. They are a useful policy option to mitigate investor concerns, ensuring improved security and a better regulatory environment in the presence of a weak overall business climate. As with FDI flows more generally, SEZs offer host countries two main types of benefits: employment generation, export growth, government revenues and foreign exchange, on the one hand, and skills upgrading, technology transfer and innovation and economic diversification on the other.

Suggested priorities for donors and regional actors

MENA countries emerging from conflict are already engaged in trying to secure FDI to fund the reconstruction of essential infrastructure damaged by years of war, and to support economic recovery. In Syria, the government has authorized private-sector actors to invest in public utilities, infrastructure, housing and other projects owned by the government, and the government recently authorized leasing the management of the Mediterranean port at Tartus to a Russian company. The two refugee host countries of Lebanon and Jordan are also exploring the idea of expanding existing SEZs. In Lebanon, an SEZ in the northern port city of Tripoli is positioning itself as a potential reconstruction hub and seeking investment from Chinese firms, which have already signed lucrative contracts, including for the construction of a new $58 million quay. Jordan and Iraq, meanwhile, recently agreed to develop a joint SEZ, which authorities claim will create several thousand new jobs, mainly in the manufacturing sector. Under the scheme, Iraqi goods with Jordanian inputs will enjoy tariff exemptions under a series of free trade agreements that Jordan has with other countries.

SEZs in the region can be expanded to include reconstruction hubs, supplying materials at scale and quality to large international contractors delivering reconstruction projects in Syria, Iraq and, potentially, Yemen. To maximize their

Box 36. Aden free port, Yemen

A natural deep-water harbour, strategically located on the tip of the Arabian Peninsula near the entrance to the Red Sea, Aden has historically been a major refuelling station for ships passing through the Suez Canal. To capitalize on the city’s locational advantage, the Yemeni authorities made Aden a free trade zone in 1991, and invested in expanding port facilities and infrastructure. The flagship investment was the Aden Container Terminal, a $250 million PPP in collaboration with the Port of Singapore Authority, which opened in 1999. By 2001, the volume of goods transhipped at the port had risen 28-fold, and major shipping lines called at Aden. Local manufacturing and services firms also significantly expanded their operations there.

Investors were given access to customs-free imports and exports out of the Yemeni customs area, various regulatory incentives (100 percent foreign ownership was allowed, and nationalization and expropriation of projects not permitted) and fiscal incentives (exemption from taxation on corporate profits for 15 years, with a possible extension for a further 10 years; salaries of international employees exempt from income tax). Yet, despite these successes, the development of Aden’s port was held back by the challenges faced by local and international firms in navigating the country’s complex institutional framework. Foreign investors were put off by the need to navigate extensive elite patronage networks, and government plans to further expand the port were put on hold following terrorist attacks.

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Box 37. The failure of SEZs in sub-Saharan Africa

Following the success of SEZs in developing an effective manufacturing sector and driving export-led growth in East Asia, a number of countries in sub-Saharan Africa have attempted to replicate the model, but often with disappointing results. A number of studies have found that, with a few exceptions (specifically Mauritius, but also partially in Kenya, Madagascar and Lesotho), SEZs have failed to deliver either static measures of economic success (e.g. boosting investment, exports and jobs) or dynamic success (e.g. technology transfers, development of new skills and economic diversification). They have also largely failed to deliver much-vaunted socio-economic outcomes (e.g. improved quality of employment, better rights for workers etc.).

Reviewing its support to an SEZ programme in Zimbabwe, the African Development Bank noted a series of endogenous factors that limited its success, including a lack of political clarity, politicized decision-making, and limited technical and financial capacity. More broadly, the Bank warned against the idea that SEZs can serve as a panacea for fragility, noting that they require a minimum level of state capacity and risk falling captive to vested interests.

A World Bank report found that sub-Saharan African countries pursuing SEZs have generally failed to exploit sources of comparative advantage — typically found in natural resource sectors — and instead have tried to replicate the traditional model of assembly of imported components that worked in East Asia. These have failed because of a competitiveness challenge in manufacturing, related to issues of geography, scale, and transaction costs. Others have noted that zones in sub-Saharan Africa have failed to provide a legal and regulatory environment that is sufficiently different from that which exists in the remainder of the country, and have suffered from a lack of strategic planning, operational expertise and quality infrastructure.

The four pillars of IsDB’s Fragility and Resilience Policy provide an informed road map for the way forward, but they need to be embedded in a clear vision for the transformation of each country. They should cascade into contextually valid and adaptive action plans which target macro, meso and micro interventions as countries stabilize. It is important that ideas to develop the transformative capacity of institutions are embedded in early-stage recovery strategies, so that local stakeholders are empowered from the beginning and see early progress that directly improves their well-being.

These country-level plans need to engage all relevant stakeholders throughout the development life cycle. This is particularly difficult in countries with no clear institutional authority to work with throughout and after conflict — for example, Syria, Libya and Yemen, where the central governments do not currently exercise control over all their territory. Pre-planning and mobilizing infrastructure and the delivery of public services before the mass migration of displaced citizens are essential to prevent humanitarian crises. There are no perfect plans, and not all investment risks are equal. Success in one country does not necessarily translate to others. Not every programme or project will produce wider socio-economic benefits or generate a transferable model. This should not preclude some smaller or riskier projects being undertaken, given the opportunity for positive, unintended consequences, real-time learning and improvement, as well as the ability to use practical contingency planning to recover from setbacks and to offset these risks across IsDB’s wider portfolio.

It is important to create clear ex ante key performance indicators (KPIs) that tier across projects, the four pillars and also wider cross-donor initiatives as well as to undertake continuous M&E using an independent but informed central unit which coordinates with local programme managers. The BRAVE project provides robust evidence that ICT can be used to triangulate evidence in the evaluation process. KPIs that become redundant or inaccurately reflect the local project and context should be changed via a structured though minimally bureaucratic process.
Second, IsDB’s four pillars need to balance the provision of hard and soft infrastructure. This will underpin the development of a resilient private sector that can re-establish revenue flows at the fiscal and household levels.

Initially, IsDB can facilitate and invest directly in rebuilding fundamental enabling, industrial and social infrastructure as countries emerge from conflict. This parallels the trend of FDI into construction and related service segments during the three-year period after conflict has ceased. It also enables SDGs and full gender inclusivity to be incorporated into the new infrastructure plans, leveraging cross-donor work on how they can be mobilized and sustained throughout the investment life cycles.

Major disruption to water and waste management networks is a critical barrier to the redevelopment and diversification of agriculture, downstream oil and gas, and to the generation of depth and resilience in the secondary and tertiary sectors of industry.

The provision of fundamental enabling infrastructure, especially power, water and transport networks, is critical to re-establishing normal business and household operations. A targeted capital investment programme can underpin the creation of socio-economic resilience, with the potential to attract international investment via multinational enterprises and consortia that can fund projects directly, or by leveraging PPP structures.

The lack of consistent and affordable power is flagged as the greatest barrier to normalizing business operations for SMEs in Yemen, which often locate within or in close proximity to domestic areas. Utility networks in Syria, Libya and Iraq were primary targets during the conflicts and continue to be plagued by smaller yet disruptive attacks. Comprehensive coverage of the delivery networks remains limited in all of the countries, especially in remote regions. The lack of consistency and affordability of utilities is reflected in the countries’ low rankings for ease of doing business.

In Iraq and Libya the traditional oil and gas infrastructure has dominated post-conflict FDI. But emerging evidence indicates that investment in renewable energy has the potential to be one of the strongest growth sectors. Jordan has been successful in attracting regional FDI into solar and wind facilities. Similarly, reduced-scale, community-based utility provision leveraging low-cost renewable sources is looking increasingly viable from a service delivery and investment perspective, especially in remote areas. This form of provision reduces the financial commitment and risk for investors, while enabling cheaper, more resilient localized utility supplies.

Major disruption to water and waste management networks is a critical barrier to the redevelopment and diversification
of agriculture, downstream oil and gas, and to the generation of depth and resilience in the secondary and tertiary sectors of industry. All of these factors, in conjunction with improved delivery networks to urban areas, improve citizens’ quality of life and well-being. However, while Jordan has made progress in developing its delivery capacity, little FDI has been attracted to this sector in Iraq, and none has been applied to Libya or Lebanon. Access to water is a critical issue to be addressed, and IsDB could work independently or as part of a joint multilateral fund to provide finance and investment incentives to attract FDI into the target countries. Egypt’s track record provides an indication that this sector merits a strategic focus to attract FDI in MENA.

The World Bank’s 2018 DNA reports illustrate that the transport and communications networks in all four countries suffered significant damage during the conflict. Iraq and Jordan have been successful in attracting regional investment into their telecoms sectors, but Lebanon and Libya have failed to stimulate any interest. Jordan presents a successful road map to attract FDI via PPPs into the port, storage and logistics sectors. Aqaba is a fulcrum node in the wider national logistics development programme that will link the country’s internal and cross-border road and rail networks within the next decade. The port of Aden in Yemen has been blighted by the conflict but will be critical to the country’s redevelopment, and there is potential to expand the surrounding industrial and free zones to incorporate local SMEs in the value chain. The redevelopment of Iraq’s and Libya’s ports is under way but could be accelerated by a more proactive investment promotion strategy and financial incentives. Damage to Syria’s transport and logistics networks is extensive, and restitution timelines are very elongated. The ongoing conflicts in all of the case study countries have generated a regional skew in the damage and, therefore, the investment requirements to rebuild physical infrastructure. Understanding the priorities requires further detailed studies at the local level once direct physical inspection is possible. The scale of the damage and cost will require substantial financial support from multilateral institutions. Using the existing industrial/free zone infrastructure – especially when it incorporates critical facilities such as ports and storage hubs and is in close proximity to borders – will protect investors from the wider national legal-regulatory problems. It will also provide better security for staff and physical resources, and allow sector-specific incentives to be leveraged into value chains and employment.

The real estate and tourism sectors demonstrate robust investor appetite from within the Gulf Cooperation Council, though this varies across the countries. Jordan’s real estate sector is extremely volatile, and investment levels are affected by large-scale developments in the zones, especially Aqaba. Similarly, Iraq and Lebanon have managed to attract substantial investment from the United Arab Emirates, while Libya has attracted funding from Bahrain into these sectors. However, commercial and social stock have also been severely depleted during the conflicts and represent segments that urgently require reconstruction and, most probably, funding from the multilaterals to kick-start investment flows.

The scale of the damage is estimated to run to $3 trillion, approximately, for Yemen, Iraq and Syria. This underestimates the total investment requirement for a number of reasons. A BBB policy is essential to improve the quality and sustainability of the stock through its life cycle. Furthermore, the original DNA estimates were unable to validate full geographical impacts; therefore, the data are regionally inadequate. They also omitted supply and trade costs for raw materials, financing costs, logistics and storage facilities, worker retraining programmes and the acquisition of capital equipment, and, in the absence of physical inspection, assumed that partial damage to infrastructure can be rectified.

Overall, the gap between the demand for and supply of finance for reconstruction is so great that collaborative and new funds will need to be created to redevelop capital assets. Although productive and enabling infrastructure will help to re-establish industry and commerce, boosting employment opportunities in the immediate term across the construction sector and cascading into other sectors in the long term, there is an urgent need to re-establish network coverage for social infrastructure such as hospitals, schools and affordable housing.

Based on the evidence to date, it is likely that FDI will flow into real estate, telecoms, the primary industrial sectors and power, with few financial incentives required once peace and stability are established. Thus, government and multilateral investment will need to prioritize social and enabling infrastructure, either via direct funding or PPPs. Given that FDI has largely been sourced from the Gulf Cooperation Council,
the use of Islamic finance to attract more investment from these markets represents a real opportunity. However, the absence of European, US and Asian investors also represents an opportunity to improve the investment attraction strategies and expand the financial depth of the target countries. That said, unlike elsewhere, financial incentives look essential to create momentum in the infra-investment flow via multinational enterprises and PPPs. All of the target countries need to upgrade the capacity and capability of their financial institutions, increasing their participation in non-traditional SME lending, providing relevant trade facilitation instruments to new firm entrants and increasing the depth of funds via syndication. At the moment, the Multilateral Investment Guarantee Agency’s export insurance programmes do not cover trade with countries in conflict, and new mechanisms need to be devised to address this gap.485

Third, supply-driven economic development requires more robust, transparent and appropriate institutional architecture, to stimulate growth and employment across multiple sectors. This can be difficult as countries emerge from conflict, as capacity is typically low. IsDB’s BRAVE programme (2019) advocates for decentralizing service delivery and support mechanisms, including the distribution of funds through local bank networks and the use of remote M&E, all of which need to be underpinned by clear project governance systems. Scaling up project-level impacts while developing a relevant legal-regulatory framework takes time and is costly, especially the investment in developing and sustaining capacity. A number of features are critical to initiate and sustain the momentum across the life cycle of the development of institutional capability.

Trust in the institutional players is a major influence on the speed and trajectory of investment flows and the development of a resilient business sector.
The information gap needs to be reduced about the state of play in each country’s subregions and local communities, especially in Libya, Yemen and Syria. Some of these data could be collected locally within structured frameworks, as per BRAVE in Yemen. Additionally, improvements in cross-donor database access would ensure that evidence-based lessons learnt and new ideas relating to PPPs, gender and youth inclusivity, practical SDG mobilization across SMEs, and mega-investments, are more likely to be integrated into new programmes and projects. This will improve the chances of success, scalability and replicability (after adaptation to local conditions). More research is required to develop comprehensive, evidence-based competitive analysis which can be used to develop sector-based investment priorities.

Structural barriers take time to be eradicated, and macro-level programmes, such as improving business environments, are perceived less positively in the short to medium term than direct support for businesses in the form of training, capital expenditure grants, support to access finance and facilitation into value chains, all of which provide a tangibility and immediacy for businesses and communities. However, to build a narrative of progressive change that can be messaged in the investment promotion activities, early diagnostic analysis can be undertaken on the coverage and relevance of the legal-regulatory frameworks related to sector-level investment and bilateral trade agreements, the effectiveness of integration of foreign/local firms (within and outside the borders of free and industrial zones), and the sufficiency of corporate legislation in relation to the use of local content, inclusiveness and minimum standards of governance.

The results can be used to define cross-ministerial structures and supra- and subnational programmes to develop relevant investment regulations while allocating responsibility for sponsoring, evaluating and mobilizing public and PPP projects within a well-managed fiscal and asset portfolio. Governments should not have policy conditions imposed if they draw on multilateral grants and debt to mobilize such programmes, but should be allowed to leverage best principles that are adapted to country/local circumstance. IsDB should encourage the recipients of funding to divest many non-critical government services to the private sector, reducing pressure on fiscal budgets and creating new jobs.

Trust in the institutional players is a major influence on the speed and trajectory of investment flows and the development of a resilient business sector. The development of trust should focus on the creation of a coherent, transparent and fair set of laws and regulations which protect international and local investors while providing voice and distributive equity to local communities. This is challenging. Even in Iraq, central government authority does not extend across the whole country, and in the other three case study countries it is very limited. Building trust is an unpredictable process that is subject to setbacks; therefore, the fundamental principles should be set by donors, but the timing for mobilization remains flexible. The nebulosity of the concept can be reduced by using data from the World Bank’s Ease of Doing Business and Competitiveness reports. For example, the disparity between the overall rankings of the four target countries is low, and yet Iraq’s amended investment law in 2016 and recent PPP legislation are enacted (though not fully functioning), providing a relatively structured framework for the designated institutional players to implement investment promotion activities across the identified project pipeline.

However, the World Bank’s procurement report indicates that mobilization capacity is limited, and the standards of governance allow economic leakage; both factors dampen investor appetite and increase the fragility of trust. Yemen is at the other end of the spectrum, with few laws operating effectively to regulate and incentivize FDI outside Aden. Its laws offer little by way of incentives for FDI at the moment; therefore, it is likely that multi-donor funds will be needed to kick-start investment. Libya’s investment laws are largely outmoded, and proposed amendments offer limited incentives for investments outside primary sectors. Little to no evidence exists for Syria’s current legislative status in relation to FDI. Lebanon had very limited regulations for FDI outside tourism until 2017; the new enactments seem poorly drafted and insufficient to compete for FDI at this stage. In contrast, Jordan has been incrementally developing its FDI, PPP and zone laws for almost a decade, providing stability and predictability for investors. As a result, Jordan has been promoting sectors internationally, linking investor protections, incentives and stability to its messaging as a stable and preferred destination for FDI in the region.

**Summary recommendations linked to IsDB’s ‘four pillars’ approach**

**Immediate and short-term actions**

- **Fast-track restorative planning.** Undertake a series of quick diagnostics to identify critical priorities and cost–impact assessments to restore essential services. Use local resources, country-experienced advisors and trusted officials to jointly define an integrated plan. Allocate delivery responsibility and budget ceilings within IsDB or in conjunction with other donors, agreeing timing and regional roll-outs. Identify and engage contractors, service suppliers and advisors, and potential complementary funders for the action plans. Fast-track tenders using IsDB’s governance systems and processes.
• **Rapidly improve public services.** This can be done by providing grant aid and soft loans directly and via multilateral co-funding to support government investments to create temporary accommodation, medical and education facilities, localized power and food-supply networks for returning refugees. Provide cash grants to families returning to domestic accommodation that can be restored with moderate investment.

• **Improve cross-border connectivity** by identifying and providing grant funding to the government to open up essential supply and transport aid/trade corridors, to improve intra- and inter-country movement of goods and services (e.g. between Syria and Jordan). In conjunction, provide assistance to institutional players responsible for managing and monitoring the physical movement of goods and people across borders. This may take the form of providing grants for training, expansion of staff, and improvements in border control equipment and infrastructure. Facilitate transitional trade agreements between neighbouring countries, possibly including the establishment of designated cross-border customs areas.

• **Improve the investment climate** by identifying, training and mobilizing loan distribution via local bank networks within a structured IsDB microfinance framework, using external M&E to control distribution.

• **Activate the investment climate** by developing a framework for a small capital grants scheme, using BRAVE as an initial template. Identify lead firms and SMEs that would benefit from receiving quick investments to repair buildings and equipment and purchase stock, and then extend the flexibility of the scheme initially into wage and training subsidies, to boost upfront trade and cash flow. This could be through the banks, but also through credible local institutional players and IsDB projects, to extend reach and inclusiveness.

• **Create statements of work for quick updates on DNA analysis,** fast-tracked diagnosis of SEZs and industrial zones, legal-regulatory frameworks and institutional capacity related to FDI and PPPs, initial investment priorities for sector investment as well as proposals from multinational enterprises to develop primary industries with the possibility to expand value chains into SMEs. Conduct additional research into the numbers, capacity and viability of MSMEs in different sectors and subregions. Engage different stakeholders to review analysis and develop localized consensus on priorities.

• **Maximize the use of trusted, impartial local counterparts to inform and manage the implementation of physical and research projects,** though M&E and budgetary controls should be managed by IsDB remotely. Investment in capacity-building and the use of standard methodologies can be mobilized via framework contracts using qualified international and local advisory firms.

• **Communicate with and engage other donors directly** and via special working groups to identify the knowledge pool about country needs, trusted advisors and institutional players, as well as accessing relevant knowledge bases and sharing success stories. Discuss collaborative efforts and budget-sharing for all immediate activities to allocate resources and mobilization responsibility.
• Create a positive narrative of change by using creative multimedia to disseminate the plans and quick wins and profile credible champions (popular politicians, local business representatives and international investors).

**Short- to medium-term actions**

• Set up a more structured development and funding programme for new and established SMEs which improves their operational and financial resilience, deepens their product and service delivery quality and capability, and expands their market attractiveness to access commercial finance and enter local/regional supply chains. Prioritize underserved segments such as female and young entrepreneurs and those with disabilities.

• Mobilize government and donor co-funding by creating specific sector-based funds that can be expanded later using private sources of finance, to incrementally reconstruct priority infrastructure for logistics, urban and industrial asset classes and critical social infrastructure, ensuring sufficiency in terms of geographical proximity to local populations.

• Lobby for and mobilize legal-regulatory changes relating to PPPs, FDI, corporate registration and SEZs within a structured programme and timeline, supporting and funding relevant institutional players and encouraging information dissemination and public–private dialogue/consultation forums throughout the development process.

• Create and strengthen investment promotion agencies (IPAs), to provide support to training and the costs and production of marketing materials (hard and soft).

• Identify bankable projects from the initial pipeline, assess feasibility and costs, draft public tender documents, undertake market soundings and release for private bids (using concession-based governance until the PPP and corporate laws are fully operational).

• Coordinate more detailed follow-up studies on realistic competitive advantages at sector and regional level, costs of doing business and barriers to investment (and actions to reduce them), and create a database of SMEs to track their development and support needs. Use the studies to lobby regulators to develop more comprehensive laws with higher standards that improve transparency, accountability and environmental and social impacts (from institutional structures through to concession/investment transaction levels).

• Undertake a targeted outward and inward investment promotion campaign, exhibitions, conferences, workshops etc., in conjunction with other ministries, tracking results through the investment life cycle. Engage the country’s diaspora to invest, trade and promote. Create a highly professional, interactive website that provides easy and quick access to the IPA’s support or signposts to other government support.

• Create new or strengthen existing strategies, structures and capabilities of institutional and non-governmental agencies responsible for life-cycle development of SEZs, PPPs and SMEs. This will require multi-project support that extends over several years; therefore, consistency and continuity are critical in terms of regulations, incentives and activation of plans.

• Bolster management capacity of existing zones, coordinating with IPAs to promote to investors and tenants. Provide support to review masterplans, investment and revenue forecasts, sector relevance, competitiveness, incentives and the potential to attract major anchor tenants that will form the basis of value chains. Review proposals for new zones in terms of cost and impact (employment, investment, support to SMEs, improvement in brand and positioning), providing advice on best practice to mobilize demand-driven development and lock in private-sector sub-developers to expand financial depth. Link to storage and logistics networks, raw material sources, major skill centres and populations, as well as borders where possible, to avoid duplication of infrastructure and inflation in handling and transport costs. Embed SME incubation units within zones in close proximity to dense urban areas to minimize travel costs for new owners. Link to grant and soft loan schemes run either by the banks or the zones’ partners.

• Work with governments to extend bilateral trade agreements, and with the Multilateral Investment Guarantee Agency and other donors to create relevant export trade credit and guarantee instruments.

• Expand the depth and reach of financial services by creating quasi-private venture capital firms using donor funds to provide the initial capital platform and qualified firms to train local staff. As per BRAVE, these funds should target priority sectors, underserved segments of the business community and innovation (in processes, products or inclusion of local providers in large national and/or regional contracts). Additionally, IsDB could leverage its unique advantage to release advisory notes and provide training on Islamic finance for banks and government players involved in FDI and PPP concessions, increasing the scale and breadth of regional investment.

• Develop and mobilize local mediation and arbitration services for contract disputes etc., to hasten resolution and reduce costs.
• **Review and improve public tender rules** and processes, and clarify responsible parties through the life cycle. Encourage the use of sector- and project-based, ex ante KPIs, full transparency and public dialogue/consultation throughout the process, as well as publication of the results of the award and ongoing M&E. Introduce ICT, such as blockchain, to reduce costs and increase efficiency.

• **Work with supra- and subnational governments** to introduce e-government systems across investor and business services. During the systems analysis, ensure that any ministerial territorialism, competition and/or silo-ing is minimized.

• **Build local capacity** in service providers and advisors for local businesses.

• **Adapt and extend the most effective programmes** within a pre-agreed KPI spectrum, based on results. Share information on IsDB’s website, with other donors, at conferences, in papers etc.

**Medium- to long-term actions**

• **Deepen financial resilience** by continuing the incremental transfer of traditional government services to the private sector, via PPPs, outsourced subcontracting, privatization where appropriate value can be captured, as well as creative use of quasi-commercial public agencies that require no subsidies. In addition to advising on improving monetary policy and fiscal management, the banking and finance sector could be expanded to include equity markets, angel investors and other sector-based public funds, and the issuance of bonds from independent quasi-government entities such as development agencies and SEZs.

• **Continue to improve institutional systems** and capacity to increase the speed of business registration while reducing costs and improving governance.

• **Expand and improve IPA activities**, to develop a comprehensive project portfolio that uses blended and project finance options without requiring government guarantees – i.e. SEZs – with development agencies and other quasi-government entities raising the finance (off-balance-sheet financing mechanisms).

• **Continue incremental investments** in enabling and social infrastructure.

• **Continue support to new and established SMEs** to scale up operations and employment and their contribution to GDP (assuming national tax laws and collection mechanisms are fair and robust).

• **Expand investment and trade collaboration agreements**, targeting localized assembly to optimize local content requirements under World Trade Organization agreements.
This report has provided an overview of the drivers of violent conflict and fragility in MENA, and potential pathways to resilience, focusing on the four conflict-affected countries of Iraq, Libya, Syria and Yemen, and the two refugee host countries of Jordan and Lebanon. First, the report reviewed current thinking and research on the causes of violent conflict and fragility, and best practice related to reconstruction, recovery and resilience. Second, it analysed the specific drivers of violent conflict and fragility in the MENA region. Third, it advanced a framework for supporting resilience through investment in four specific assets or types of capital: human, social, physical and financial. Fourth, it considered specific strategies for investing in human and social capital, facilitating sustainable integration of refugee and IDP populations, and supporting PSD, with reference to specific case study examples from MENA and elsewhere.
This final chapter first summarizes the main findings of the report and then provides a number of recommendations for IsDB and the broader donor community. The recommendations are divided into three categories, corresponding to three broad stages of the transition away from violent conflict and the fragility–resilience continuum: 1) an initial ‘in-conflict’ stabilization phase; 2) a medium-term ‘recovery and restructuring’ phase; and 3) a longer-term ‘transformative’ phase. These phases are premised on the idea that efforts to support recovery and resilience can begin even when a country is experiencing violent conflict, prior to a final peace settlement, and in the absence of formal state structures. They also broadly correspond to the four pillars of IsDB’s 2019 Fragility and Resilience Policy, which focus on: 1) investing in prevention; 2) transitioning relief to development; 3) supporting recovery and resilience; and 4) mobilizing resources for resilience.

Key findings

Fragility and violent conflict in MENA are complex phenomena with social, economic, political, environmental and security dimensions. At their core, they involve a breakdown of social capital, including real and perceived horizontal inequalities between different groups, leading to popular demands for greater political, social and economic inclusion.

Treating fragility, therefore, requires a multidimensional approach to building resilience, by investing in human, social, physical and financial capital. A cross-cutting focus must be to repair the fraying social fabric (both vertically between governments and citizens, and horizontally between different societal groups).

Because of the multidimensional nature of fragility and the scale of the task to address it, international donors should pursue a joined-up and complementary approach. No single actor can perform all the required tasks, and donor institutions – including multilateral development banks such as IsDB – should focus on a smaller number of tasks in which they have a comparative advantage.

Jobs can have an immediate stabilizing effect, providing a ‘peace dividend’ in the form of an economic lifeline to war-weary populations, and helping in the demobilizing, disarmament and reintegration of former combatants. They can also indirectly support peace processes by boosting government legitimacy and facilitating the reconstruction
of essential infrastructure. Over the longer term, expanding meaningful employment through a revitalized private sector can support sustainable and equitable economic growth and increase government revenues. It can also build human capital (through skills acquisition, training and education) and social capital (by expanding peaceful interactions between different societal groups), both of which can enhance citizens’ sense of belonging and broader social cohesion.

The existence of vulnerable and marginalized groups is both a cause and a result of violence and fragility in MENA, and significant efforts must be made to meaningfully engage with them in reconstruction efforts. High levels of youth unemployment have been identified as a major cause of the Arab Spring protests in 2011, and perceived horizontal inequalities have been mobilized as drivers of violent conflict. Women and girls enjoy fewer social, political and employment opportunities than men, and millions of people have been displaced by fighting and need to be reintegrated into host countries or allowed to return home.

As well as being effectively coordinated, donor efforts to support reconstruction, recovery and resilience must also be properly sequenced, according to the specific phase along the fragility–resilience continuum in which a country finds itself. In countries still experiencing active fighting, activities should aim to prevent violence from escalating further, while in countries where fighting has stopped, the focus should be on avoiding a relapse. In short, activities can be divided between three broad phases: an initial short-term ‘stabilization’ phase that supports peace deals and a cessation of violence; a medium-term ‘recovery and restructuring’ phase that restores sustainable economic growth; and a longer-term ‘transformational’ phase that supports institutional development and the creation of national social cohesion.

At present, a lack of accurate and reliable data prevents the development of detailed, country-level blueprints for reconstruction and recovery. Existing needs assessments rely on different methodologies, and data are typically inadequate or out of date. To progress from broad, strategic recommendations to detailed blueprints of specific interventions will require detailed, in-country research.

Similarly, donor interventions need to be informed by country-specific conflict analysis and political economy analysis. Ideally, donor interventions will seek to address underlying drivers of conflict and fragility, but as a minimum will avoid exacerbating them by adopting a ‘do no harm’ approach. This requires an in-depth understanding of the context of each country.

While the report calls upon international development partners to further commit to supporting recovery and reconstruction and while donor interventions can play an important role in supporting MENA countries’ transition away from violence and fragility towards resilience, it should be recognized that this path is largely endogenous. The move towards sustainable, long-term institutional reform requires significant host-country political will. Nevertheless, to the extent that they can support a more equitable future, donor programmes can be part of the solution.

Cross-cutting recommendations and next steps

In line with IsDB’s Fragility and Resilience Policy, this report advances a framework for building resilience in MENA by investing in four types of assets or capital: human, social, physical and financial. They are mutually reinforcing, and together help to counter the various dimensions of fragility:

- **Improved human capital**, in the form of better education and training, health and nutrition, and psychosocial well-being, can lead to better jobs and incomes, a stronger economy, and a sense of personal achievement for individual citizens. It also helps people to feel a sense of belonging in society, and greater attachment to the State.
- **Improved physical capital**, including new, rehabilitated and improved infrastructure (roads, hospitals, schools etc.) and essential basic services (water and electricity networks, waste management), also contribute to individual well-being and economic growth, and help to rebuild the social contract between the State and its citizens.
- **These two types of capital help to facilitate improved financial capital**, as jobs and economic growth lead to increased incomes, repaired markets, greater investment and higher government revenues.
- **Improved social capital** cuts across all of these, creating bonds between individuals and groups in society, and between individuals and the State. Investing in human, physical and financial capital in a way that is fair and equitable means, for example, that people have access to quality education, health, jobs and basic services regardless of their physical location or social group, thus reducing horizontal inequalities and building state legitimacy.
As outlined in Chapter 2, there are several important lessons learnt that underpin this framework, explained in more detail below:

• **The needs of refugees, IDPs and migrants must be managed across all donor interventions.** Forced displacement is both a symptom and a cause of fragility; it causes immense human suffering and trauma for those forced to leave their homes, makes long-term recovery more challenging for their countries of origin because of dissipated human capital, and can put pressure on the economies, infrastructure and social cohesion of host communities. Aside from resettlement to a third country, voluntary return and integration into a host community are the only two sustainable options for supporting refugee populations (and by extension, IDPs); they should thus inform donor interventions even when they are not specifically aimed at supporting migrant communities. For example, as Chapter 5 argued, infrastructure should be rebuilt in a way that considers the needs and concerns of returnees and IDPs, who are often located in urban or peri-urban locations. Similarly, as Chapter 6 demonstrated with the example of the Jordan Compact, PSD can be geared simultaneously towards facilitating the long-term economic growth of host communities and supporting the well-being of migrants.

• **Effective donor cooperation and coordination are essential.** Because effective change and progress towards greater resilience are ultimately an endogenous process, donor interventions – even in ideal circumstances – may only have limited scope to help countries progress from violent conflict and fragility. Poor donor coordination or even conflicting donor objectives will further undermine this scope. Key principles outlined in Chapter 4 include the need for sustained donor engagement and partnership, rather than short-term interventions; supporting capacity-building from the start to avoid de-skilling; creating funding mechanisms that can distribute resources rapidly; adapting systems to local contexts; focusing on the policy and political nature of recovery over the technical; and focusing on strengthening systems rather than supporting them. Good donor coordination is also crucial for PSD. As Chapter 6 argued, donors should work together and through special working groups to identify and understand target-country needs, trusted advisors and institutional players, to share success stories and to discuss collaborative efforts and budget-sharing.

Figure 9. A framework for building resilience by investing in human, social, physical and financial capital
Investments in resilience will ideally be built on established peace and a comprehensive political settlement. As recognized by the governments of Libya, Yemen and Iraq, investments in human, social, physical and financial capital would ideally be built on established peace, in the form of a comprehensive political settlement between the different parties involved in conflict. In contexts where there is no established peace, investments may be undermined by a number of factors. First, violence and instability damage and destroy physical capital, dissipate human capital – for example, by creating forced displacement – and weaken financial capital, by dissuading local and foreign investment and encouraging capital flight. As Chapter 6 established, investments in ‘good’ forms of FDI (i.e. investment in the manufacturing and services sectors that create larger numbers of meaningful jobs and the development of new skills) is difficult to achieve during active conflict or where the State lacks the necessary regulatory and legal framework. Similarly, Chapter 5 demonstrated that large numbers of refugees are unlikely to return to their homes amid ongoing insecurity or if they have concerns over retribution or arrest.

Nevertheless, donor interventions can contribute to resilience even in the midst of violent conflict; therefore, donors should not wait for established peace. In many cases, a comprehensive peace settlement will remain elusive or will at best be only partially implemented. As this report has shown, there are activities that can take place even in the midst of violent conflict – for example, IsDB’s BRAVE project in Yemen, and efforts to deliver essential services via the local private sector in Somalia.

Specific recommendations for human capital and PSD across the three phases of conflict

Table 3 summarizes a series of practical recommendations for activities that can form the basis of IsDB investments in human development and PSD in fragile and conflicted-affected countries in the MENA region. In crafting the recommendations, the plans and thinking of the governments of Libya, Iraq and Yemen have been taken into account, particularly in private-sector investment, job creation, investment, education and skills development, and healthcare. These recommendations have been divided into three broad categories, corresponding to three distinct phases through which countries transition on the path from fragility to resilience. These phases are the following.

**An immediate in-conflict ‘stabilization’ phase.** Violence is likely to be ongoing during this phase, and a comprehensive political or peace settlement is either absent or only partially implemented. Investments in both human development and PSD are nevertheless possible, and should focus on meeting the immediate needs of civilians (e.g. providing temporary housing through governments and the local private sector, and jump-starting the economy), preventing a resumption or escalation in fighting (e.g. by providing employment through public works schemes for former combatants and conflict-affected populations), and supporting ongoing peace processes (e.g. through community reconciliation initiatives). There is likely to be considerable crossover with humanitarian assistance (e.g. the provision of temporary and emergency health and education facilities). Libya, Syria and Yemen are all currently positioned in this phase.

**A medium-term ‘recovery and restructuring’ phase.** As levels of violence fall, and countries begin to emerge from active conflict, assistance should increasingly look beyond addressing immediate needs to a focus on longer-term recovery and resilience (corresponding to Pillar Two of IsDB’s Fragility and Resilience Policy). Investments should, therefore, be sustainable (e.g. expanding basic service delivery to include services such as sanitation and street lighting) and focus on the restructuring of practices and institutions (e.g. creating an IPA to begin to attract FDI). Of the four main case study countries, only Iraq currently occupies this phase.

**A longer-term ‘transformative’ phase.** Having successfully moved out of violent conflict, countries can be supported in consolidating peace and transitioning to greater resilience by developing greater transformative capacity. In terms of human development, examples include focusing on building stronger healthcare and education systems (e.g. curriculum reform, teacher accreditation), while PSD activities might include expanding a shift from government services to the private sector.
Table 4. Practical recommendations

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<tr>
<th>Conflict phase</th>
<th>Human development</th>
<th>Private-sector development</th>
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<tr>
<td><strong>1. In-conflict stabilization phase (immediate term)</strong></td>
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<td>1. <strong>Restore essential services</strong> (e.g. invest in community-based healthcare; support basic hospital functionality; get children back to school and facilitate catch-up for young adults; psychosocial support and mental health programmes)</td>
<td>1. <strong>Restorative planning</strong> (quick diagnostics to identify priority sectors using local resources; identify contractors and suppliers; fast-track tenders)</td>
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<td>2. <strong>Build inclusion</strong> (e.g. programmes to encourage school attendance; social protection programmes, including cash transfers/minimum wages; conflict management and community engagement/reconciliation)</td>
<td>2. <strong>Rapid improvement in services</strong> (provide grants and loans to support government investment in temporary accommodation, health and education facilities and localized power and food-supply networks; cash grants to returnees and refugees)</td>
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<td>3. <strong>Invest in youth</strong> (e.g. support youth to go back to school to complete studies and obtain qualifications)</td>
<td>3. <strong>Cross-border connectivity</strong> (e.g. grants and training, improvements in border control equipment and infrastructure; transitional trade agreements)</td>
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<td>4. <strong>Invest in livelihoods</strong> (e.g. create immediate education and training opportunities; entrepreneurial schemes; public works employment; cash transfers for vulnerable people)</td>
<td>4. <strong>Improve investment climate</strong> (e.g. mobilize loan distribution via local banks within a structured IsDB microfinance framework)</td>
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<td>5. <strong>Activate investment climate</strong> (develop a framework for a small capital grants scheme; identify lead firms that would benefit from receiving quick investments in buildings, equipment and stock)</td>
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<td>6. <strong>Create statements of work to update DNA analysis</strong> (e.g. focus on SEZs and industrial zones, legal-regulatory frameworks related to FDI and PPPs)</td>
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<td>7. <strong>Use local counterparts for physical/research projects</strong> (investment in capacity-building and use of standardized methodologies)</td>
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<td>8. <strong>Ensure direct contact with other donors</strong> (pool knowledge about needs, trusted advisors etc.; share lessons learnt; collaborate on efforts/budgets)</td>
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<td>9. <strong>Create positive narrative of change</strong> (using creative multimedia approach to profile credible champions)</td>
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<td><strong>2. Recovery and restructuring phase (medium term)</strong></td>
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<td><strong>1. Restore essential services</strong> (e.g. establish public health services, including rubbish collection and sanitation; schemes to incentivize the inclusion of girls, children with disabilities, and refugees into services; expand psychosocial support services)</td>
<td><strong>1. More structured development/funding programme for MSMEs</strong> (improving their operational/financial resilience; product delivery; ability to enter global supply chains etc.)</td>
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<td><strong>2. Build inclusion</strong> (e.g. community security and safety schemes, such as street lighting and neighbourhood watch; support to community cohesion and integration of new groups such as refugees and IDPs; community services such as women’s clubs)</td>
<td><strong>2. Mobilize funding for priority infrastructure</strong> (for logistics, urban and industrial asset classes, critical social infrastructure)</td>
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<td><strong>3. Invest in livelihoods</strong> (e.g. expand entrepreneurial schemes linked to employment opportunities; improve food security and support to the rural economy; support banking and money transfer systems; expand support to community-based systems to improve capacity and accountability)</td>
<td><strong>3. Support legal-regulatory changes relating to PPPs, FDI, SEZs etc.</strong></td>
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<td><strong>13. Improve public tender rules and processes</strong></td>
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<td><strong>16. Adapt/extend the most effective programmes with a pre-agreed KPI spectrum, based on results</strong></td>
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<td>Conflict phase</td>
<td>Human development</td>
<td>Private-sector development</td>
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| 3. **Transformative phase (longer term)** | 1. **(Re)Build stronger systems**  
(e.g. education systems-strengthening, including curriculum reform and accreditation of teachers; health systems-strengthening, focused on smaller and more accessible units; support recovery of human resources, including pathways for workers to obtain formal qualifications; restore national manufacturing capacity) | 1. **Deepen financial resilience**  
(e.g. continue transfer of traditional government services to the private sector via PPPs, and create use of quasi-commercial public agencies that require no subsidies; expand banking/finance sector to include equity markets etc.) |
|                                | 2. **Invest in youth**  
(e.g. technical/market-driven vocational training; youth engagement by forming business associations and cooperatives; youth-focused trade agreements by governments to stimulate key sectors) | 2. **Continue to improve institutional systems and capacity to increase the speed of business registration** while reducing costs and improving governance                                                                                                                                  |
|                                |                                                                                                                                                                                                                 | 3. **Expand IPA activities to develop a comprehensive project portfolio** using blended/project finance without requiring government guarantees (i.e. zones)                                                                                                    |
|                                |                                                                                                                                                                                                                 | 4. **Continue incremental investments in enabling and social infrastructure**                                                                                                                                                   |
|                                |                                                                                                                                                                                                                 | 5. **Continue support to new and established MSMEs to scale up operations**                                                                                                                                                   |
|                                |                                                                                                                                                                                                                 | 6. **Expand investment and trade collaboration agreements**                                                                                                                                                                      |


223. Ibid.


228. Ibid.


233. Ibid.


315. Human development is the process of enlarging people’s freedoms and opportunities, and improving their well-being, through a process of neglecting the impact of war on development in Yemen’. United Nations Development Programme, New York.


317. In relation to investment in human development, especially healthcare, education and access to opportunity and services, equity is not the same as equality. While equality envisages equal shares or inputs to all interest groups, equity is concerned with outcomes, differentiating investments according to need to close the gap between best and worst performers. Equity in a post-conflict setting implies a reorganization of human development services away from pre-conflict arrangements, to redress imbalances in outcomes that either pre-date the conflict or which emerged in the course of (or due to) the conflict.


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340. United Nations (2014) ‘Repairing war-torn societies ‘fairplay with challenging-


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