

## **Conflict and fragility:**

### **Findings from the literature and a framework for analysis at the micro level**

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#### **Abstract**

Motivated by the current debate on fragile states, the paper contributes to the literature in four ways: First, it identifies some of the key issues and gaps in the literature on fragility. Second, the paper explores a micro-economic approach towards fragility looking at both its causes and effects. By doing so, we link it to findings from the conflict literature. Third, we propose a conceptual framework for analyzing the impact of conflict and fragility at the household level. Finally, we will derive some policy implications and discuss further research.

# 1 Introduction

This paper is motivated by our concern and those of donors and international organizations about so-called ‘fragile states’<sup>1</sup>. Often not fulfilling the condition of ‘good governance’, these countries have initially been neglected by donor agencies. Recently, in view of reaching the Millennium Development Goals and of the high costs fragile states cause at the local, regional and global level, these mainly low-income countries are receiving particular attention (e.g., World Bank, 2002).

Leading the work on violent conflicts, the research community has yet to catch up with the donor community on the debate on fragile states. Especially a microeconomic perspective on fragility is missing so far. Admittedly, microeconomic research, in particular empirical studies using household survey data, has strongly progressed in the last few years with regard to post-conflict development. Yet, this research has not explicitly linked itself to the concept of fragility.<sup>2</sup>

The paper contributes to the literature in the following ways: It identifies some of the key issues and gaps in the current debate on fragility. Second, the paper explores a microeconomic approach towards fragility looking at both its causes and effects. By doing so, we link it to findings from the conflict literature. Third, we propose a conceptual framework for analyzing the impact of conflict and fragility at the household level. Finally, we will derive some policy implications and discuss further research.

The paper is structured as follows: First, we will briefly review the state of the art on fragility as of both the donor and the economic research community. In the subsequent chapter, we will then compare conflict and fragility from a microeconomic perspective. After developing a working definition of fragility, the chapter addresses both the causes and the effects of conflict and fragility. With regard to the effects, we derive a conceptual framework that aims at capturing the main channels through which conflict and fragility affect households. We will

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<sup>1</sup> There is meanwhile a broad consensus to use the term “fragile states” without linking it to any specific concept (see chapter 2).

<sup>2</sup> An attempt to bring together both communities in order to gain a better understanding of the phenomenon fragility and its relation to conflict was hence the main objective of the conference on “Poverty Reduction in Conflict and Fragile States: Perspectives from the Household Level” that has been organized jointly by the United States Agency for International Development (USAID), the Households in Conflict Network (HiCN), and the German Institute for Economic Research (DIW Berlin) in November 2006. This paper draws on presented papers and discussions of the conference and has highly benefited from many discussions since the beginning of the preparations in spring 2006. For further information please visit <http://www.diw.de/fragilestates>.

discuss these channels in detail while considering findings from conflict studies. In the last chapter we will conclude by discussing policy implications and future research.

## **2 The state of the art of fragility**

This chapter will first give a brief review of what has been published on fragile states.<sup>3</sup> The issues addressed by the current literature can be divided into the following three categories: defining and measuring fragility, the programming of assistance as well as cross-country studies on both the costs of fragility and the relationship between aid and fragility. The first two are mainly donor-driven. As this paper is primarily interested in developing a framework for analysis, we will review the literature on the first category only. Besides, studies on experiences with the programming of assistance are a rapidly growing literature that would require a separate survey. The latter, cross-country studies, illustrate a first and fairly recent response and approach by the economic research community towards the subject.

The subsequent sections demonstrate that work on fragility has proceeded rapidly in the last few years. There is, meanwhile, sufficient evidence that, similar to civil wars, fragility hinders the economic development of countries and threatens efforts in reducing poverty. Particularly low-income countries find it difficult to lift themselves up. But fragile states not only pose a key challenge to their own people, they also impose costs on their neighbors and on the global level.

Yet, as the literature is still in its infancy, we lack a profound understanding of the actual mechanisms behind fragility: how fragility emerges, how it is maintained and how it can be overcome. Moreover, our knowledge is rather limited in how people actually experience this phenomenon in their everyday life and how they respond. These issues we try to address in the following chapter (chapter 3) while considering insights from the conflict literature.

### **2.1 Defining and measuring “fragile states”**

In the early 1990s, following the events in the developing world, a large body of academic (though less economic) and policy-oriented literature loomed on the role of the state and “state collapse” / “failed states” / “state failure” (for a recent review and discussion of

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<sup>3</sup> Besides the development community, the discussion has also been stimulated by the humanitarian, human rights, and the security community (Woodward, 2004). As each of them has different associations and usage of the term (*ibid.*) and is a huge literature of its own, we will not consider them here.

terminologies see, e.g., Francois and Sud (2006) and contributions to Development and Change 33(5)).<sup>4</sup>

At the beginning of this century, the debate widened particularly among practitioners in order to include countries which emerge after state failure and those which are threatened to collapse but somehow manage to go on. This was also due to the increasing difficulties donors faced in these countries in light of achieving the Millennium Development Goals. From this need, studies and strategy papers emerged proposing ways of how to define and how to deal with fragile states. Amongst others, the following terminologies have been proposed: “low-income countries under stress” (LICUS, World Bank, 2005b, IEG (Independent Evaluation Group - World Bank), 2006), “difficult environments” (Moreno Torres and Anderson, 2004), “fragile states” (USAID, 2005), “weak states” (Rice, 2006). Albeit a broad consensus has emerged on using the term “fragile states”, the debate is still ongoing as regards the definition of fragility and its counterfactual<sup>5</sup>; for a more detailed review and discussion see, for instance, (Picciotto et al., 2005, Woodward, 2004, Asian Development Bank, 2006, and Moreno Torres and Anderson, 2004). Also, there is a dispute about its relation to so-called failed states (Francois and Sud, 2006).<sup>6</sup>

Perhaps in consequence of having its seeds in the literature on state collapse, definitions of fragility are typically state-centered. More precisely, they actually correspond to the more narrow term “state fragility” (e.g., Picciotto et al., 2005), which we explicitly avoid in this paper, and are often linked in one way or the other to the governance concept (e.g., Kaufmann et al., 1999, from the World Bank). Terminologies frequently employed are, amongst others, a state’s legitimacy and effectiveness as well as its capacity and willingness with regard to, for instance, maintaining security or providing public goods.<sup>7</sup>

Furthermore, with regard to policy implications, some authors / institutions further distinguish different categories of fragile states. To give an example, the World Bank has come up with

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<sup>4</sup> Since our focus is on the terminology “fragile states”, we refer to this vast body of literature only marginally. International, policy-oriented institutions who have been working on state collapse are, among others, the Carnegie Endowment for International Peace and the Centre for Global Development.

<sup>5</sup> Some use the terminologies “effective state” or “development effectiveness” for describing the opposite of fragile states (e.g., Asian Development Bank, 2006, Maass and Mepham, 2004).

<sup>6</sup> Milliken and Krause (2002) suggest, for instance, to further distinguish between institutional and functional failure (“state collapse” versus “state failure”).

<sup>7</sup> To give an example: DFID has designed a 2x4 matrix on “indicative features of fragile states” with a state’s “ability” and/or “willingness” as columns and “state authority for safety and security”, “effective political power”, “economic management”, and “administrative capacity to deliver services” as rows (Torres and Anderson, 2004).

four “business models”: “deterioration”, “post-conflict or political transition”, “prolonged crisis or impasse”, and “gradual improvement” (World Bank, 2005b).<sup>8</sup>

Turning to the measurement of fragility, similar problems arise. Like violent conflicts, fragility may be attributed to a multiplicity of causes. Also, it describes a multidimensional phenomenon. In addition, however, “fragility is primarily a matter of degree, not of kind” (McGillivray, 2006:13, see also World Bank, 2002). Thus, the choice of a threshold is even more arbitrary. By now, there have been two responses: First, using a set of already existing country-criteria, (low-income) countries are assigned to a group of fragile states. Second, based partly on newly collected data, an overall index of fragility is constructed allowing hence for a ranking of states. We will address both approaches briefly in turn.

Similar to the World Bank (World Bank, 2005b, IEG (Independent Evaluation Group - World Bank), 2006), also OECD-DAC and DFID base their classification on the Country Policy and Institutional Assessment (CPIA) which is annually prepared by the World Bank and has been made publicly available a few years ago. It is an index of 16 indicators capturing “economic management”, “structural policies”, “policies for social inclusion and equity”, and “public sector management and institutions” (for 2005 see World Bank, 2005a). Countries in the lowest two quintiles as well as those not ranked by the World Bank (in 2005 Afghanistan, Liberia, Myanmar, Somalia, and Timor-Leste) are treated by them as “proxies” for fragile states (DFID, 2005).<sup>9</sup>

An example for a ranking is the Failed States Index (FSI) which has been jointly developed by the Fund for Peace and the Foreign Policy magazine in 2005.<sup>10</sup> It is updated on a yearly basis and is composed of a broad range of 12 indicators for or drivers of fragility, such as “mounting demographic pressures”, “uneven economic development along group lines”, and “progressive deterioration of public services”.<sup>11</sup> Thus, as opposed to the state-centric definitions proposed by donors, these indicators also account for socio-economic and other factors that are likely to contribute to a fragile environment. Based on the FSI threshold,

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<sup>8</sup> For detailed information see <http://www.worldbank.org/licus>.

<sup>9</sup> The World Bank (2005) uses a lower threshold, thereby reducing the number of countries classified as ‘fragile’.

<sup>10</sup> The FSI is the ranking most widely referred to. Other rankings, such as the CPIA, the Governance Indicator (also provided by the World Bank) or the Economic Freedom Index, are if at all proxies; they only partly address the various dimensions of fragility and have been introduced independently from or even ahead of the fragile states debate and thus typically serve a different purpose.

<sup>11</sup> For further information see <http://www.fundforpeace.org/programs/fsi/fsindex.php>.

comparatively more countries are classified as fragile. Moreover, fragility is not per se restricted to low-income countries though most of them, in fact, are.

The academic community has treated the subject with reserve. Political scientists, for instance, generally tend to criticize the concepts proposed by the donors due to their (in part implicit) assumptions about the role of the state (compare Picciotto et al., 2005, Woodward, 2004, Khan, 2004). Economists, on the other hand, have responded only very recently. Hence the few number of (mainly cross-country) studies so far which we will review in the next section.

## **2.2 Cross-country studies**

Cross-country studies have addressed the following two items: the costs fragile countries impose on their citizens and their neighboring countries (see also Francois and Sud, 2006) and the relationship between aid and fragility. We will review each of them in turn.

Based on the LICUS terminology and using data from 1977-2002, Paul Collier from the World Bank and his colleagues find, among other things, that for peaceful low-income countries, being fragile reduces annual growth by 2.6 % (Chauvet et al., 2006); civil wars, in contrast, cause a reduction of annual growth of estimated 2.2 % (Collier, 1999, see also Collier et al., 2003). In terms of initial GDP, Chauvet and Collier (2005) estimate a cost factor of 4.6.

Moreover, a fragile state at peace switching to war faces an additional reduction in growth by 1.6 % (Chauvet et al., 2006).

In addition, similar to the finding that conflict-affected countries generate spillover effects on their neighbors (Murdoch and Sandler, 2002), a neighbor of a fragile state typically experiences an economic loss of 1.6 percentage points of the annual growth rate – other costs such as refugees, violence, or organized crime being neglected (Chauvet et al., 2006). In terms of initial GDP, Chauvet and Collier (2005) estimate a loss of 3.41 times initial GDP. Under the assumption that a fragile country has typically three neighbors, this amount triples.

Compared with the estimation of costs occurring within a LICUS (see above), this means that two thirds of the costs arising from LICUS actually occur in their neighborhood (Chauvet and Collier, 2005).

Summing up these costs over all LICUS, Chauvet et al. (2006) estimate the total costs of all fragile states at \$270bn per year, thus exceeding clearly international aid.

Furthermore, chances for a ‘sustained’ turnaround are very low – at 1.7%. The expected duration period for a LICUS to stay fragile is estimated 59 years, country-specific effects being rather unimportant (Chauvet and Collier, 2005).

As regards conflict-affected LICUS, using the same dataset as Collier and Hoeffler (2004), covering the period from 1965 to 1999, Chauvet et al. (2006) find, among other things, that “...the costs of civil war to citizens of failing states do not come close to the costs of poor policies and governance [i.e., a low CPIA, hence LICUS]” (ibid.: 12). Hence their conclusion that being at peace is not a sufficient condition for economic development.

Moreover, the probability of an outbreak of war is for a LICUS approximately twice as high as for other developing countries (Chauvet et al., 2006).

Besides these estimates, studies have analyzed the relationship between international aid and fragile countries. We will give only a very brief review of findings; for an in-depth review and remaining gaps see McGillivray (2006) as well as the OECD-DAC Monitoring Report on resource flows to fragile states (OECD-DAC, 2006). Many issues are still widely disputed, such as the impact of specific assistance programs.

Chauvet and Collier (2005) estimate the chance for a turnaround of a LICUS in terms of an improvement in policies and institutions (as captured by the CPIA) if aid increases – income effects that can also move a country out of the low-income category being neglected. They find that the type of assistance matters and that their effects change along the transition path of a LICUS. For instance, technical assistance does not show any significant effect prior to an improvement of CPIA but later-on as opposed to financial assistance.

Although one would expect a high priority of international assistance on fragile states, Levin and Dollar (2005) find that these countries received on average less development aid between 1992 and 2002. Furthermore, aid volatility has been approximately twice as high as compared to other low-income countries.

### **3 Conflict and fragility: Comparison of micro issues**

As the previous chapter has shown, there is a need to better understand the processes behind fragility at the micro level. The analysis of conflict may offer many analytical insights for this purpose: First, internal wars and fragility both affect a household’s economic, political, and social surrounding. Second, both phenomena are outcomes of human interactions. Thus, we might find similarities between the causes of conflict and of fragility. Third, as we

demonstrate below, with respect to the impact of fragility, the channels through which conflict affects households are very similar although their relative importance may differ.

Given that we are only concerned with violent conflicts, we use, for practical reasons, the terminologies “conflict”, “civil conflicts”, and “violent (mass) conflict” interchangeably. Having said this, we do acknowledge that “conflicts” are, in principle, an integral part of any societal process if they are non-violent; for a detailed discussion see Brück and Schindler (2007). Throughout the paper, we refer only to those violent conflicts that are of significant large scale and have a systematic character, such as civil wars (see Goodhand, 2001). Following Stewart and FitzGerald (2001), we generally do not consider organized crime to be a mass violent conflict.

The chapter is structured as follows: After proposing our working definition of fragility (section 3.1), we outline a matrix for analyzing civil conflict and fragility in section 3.2. In section 3.3, we study the insights from the literature on the causes of conflict and consider transferring these to fragility. Our main focus is on the effects at the household level which are addressed in section 3.4. We outline a framework for analyzing the impact of conflict and fragility at the household level while considering relevant findings from conflict studies.

### **3.1 Working definition of fragility**

We will define fragility as a set of persistent, systematic, and significant interrelated social, political and economic uncertainties. Fragility is, thus, a phenomenon at the aggregate level – local, regional, or national. Viewed from the household perspective, some events connected to the phenomenon fragility may be predictable (those occurring in or close to the environment a household is living in) whereas others may not (those occurring at a more aggregate level and about which the household has less first-hand information). Given this definition, we treat failed states as one extreme with a very high degree of fragility and most conflict-affected states to be a subset of all fragile states.

Like the definition of conflict, the definition of fragility should be neutral with respect to the potential sources of fragility since they will differ from case to case. In some, the state may

play the predominant role, in other, however, certain groups in society may bear the main responsibility.<sup>12</sup>

Moreover, state-centered definitions implicitly treat “the state” as black box and disregard political economy aspects that matter within any political system, such as interests and incentive structures (see, for instance, models of dictatorships, Wintrobe, 1998, Verwimp, 2003). Also, like any other organization, the state is prone to problems like information asymmetry and moral hazard. In some developing countries, furthermore, the line between the state or state institutions and society may become blurred if, for instance, clientelistic structures are prevalent.

Put differently, our concept needs to reflect that fragility is the outcome of rational behavior and that some households do benefit from it; this has been nicely illustrated for violent conflicts by (Keen, 1997, Keen, 2001). Or, to paraphrase Keen (1998), fragility is ‘the continuation of economics with other means’.

### **3.2 Analyzing conflict and fragility at the micro level**

When studying conflict and fragility at the micro level, one needs to deal with the problem of endogeneity. To give an example: violent conflicts tend to increase poverty but poverty also increases the likelihood of conflict leaving open who causes whom (e.g., Goodhand, 2001, Justino, 2006, World Bank, 2005c, Stewart, 2004a). On principle, conflict studies focus on one direction of this reciprocal relationship: On the one hand, analyses of the causes of conflict treat actors at the micro level first and foremost as active agents, i.e., they examine under what conditions people initiate and/or can be mobilized to participate in violent actions. On the other hand, analyses look at how a violent mass conflict or fragility affects agents at the micro level. Here, conflict and fragility are treated in an exogenous manner.

This will be our main dimension along which we will guide our analysis of both conflict and fragility and along which we will proceed accordingly in sections 3.3 and 3.4.

A further dimension will be the unit of analysis chosen at the micro level: individual, household (including intra-household aspects), firms, groups, and communities.<sup>13</sup> The unit

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<sup>12</sup> Interestingly, contrary to the fragility literature, the conflict literature with its origins less in the policy but in the research community has been accused of neglecting the role of the state over the conflict cycle (e.g., Ballentine and Nitzschke, 2005).

chosen will depend on the research question posed and the given context. In any case, it corresponds to the supposed decision-making unit.

As we will demonstrate below, a survey of the conflict literature brings forward that all but the household is typically chosen as unit of analysis when the causes of conflict is the main objective of the analysis. The other way around, the household level as unit of analysis receives greatest attention when the effects of conflicts are addressed. In the two subsequent sections, we will therefore pay regard predominantly to these levels of analysis.

### **3.3 Causes of conflict and fragility**

When trying to understand the causes of civil conflict and fragility, cross-country studies can help us reveal common patterns. In this way, the conflict literature has found evidence for potential drivers of conflict such as natural resources and horizontal inequalities (for reviews and discussions see Stewart and FitzGerald, 2001, Stewart, 2004b, Fischer and Schmelzle, 2005, Gurr, 1993, Nafziger and Auvinen, 2002, Fearon and Laitin, 2003, Collier, 2006, Collier and Hoeffler, 2004, among others). Similarly, the US-government sponsored Political Instability Task Force (PITF, formerly State Failure Task Force) has looked at determinants that increase the likelihood of state collapse and political instability (Goldstone et al., 2005). With regard to fragility, however, the problem of endogeneity typically arises since measures such as the Failed States Index are composed of indicators that may likewise be potential drivers.

How potential drivers fuel social processes has been tackled quite extensively by microeconomic conflict studies (including, in part, post-conflict studies). Along the levels of analysis outlined in the preceding section, we will now describe the various strands of literature.

Based on the individual as the unit of analysis, a huge literature has evolved on collective action, mobilization, and participation from the 1960s onwards. It has its foothold in various disciplines, not only in economic science (for a review see, e.g., Gupta, 1990, for newer economic analyses see, amongst others: Hirshleifer, 1991, Hirshleifer, 1995, Humphreys and Weinstein, 2006, Pons-Vignon and Solgnac Lecomte, 2004). On a more general level, the

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<sup>13</sup> Alternatively, one could define the community level as (spatially defined) sub-category of the group level. However, since conflict studies have approached them quite differently (see section 3.3), we will treat communities as a separate group.

debate has narrowed in recent years to one about greed vs. grievance factors (Collier and Hoeffler, 2004, Ballentine and Sherman, 2003, Malone and Nitzschke, 2005, Reno, 2005).

In contrast to this large literature, it is striking that the household as the unit of analysis has hardly been researched by economists with regard to the causes of conflicts, e.g., considering the participation of household members in violent actions or rebel groups as a potential risk coping strategy in a pre-war phase or during war. A rare exception is the study by Deininger (2003) using household level data from Uganda.

With regard to the role local firms play, a rather large bulk of literature has turned its attention to firms' active contribution to the outbreak and ongoing of war, for which the term "war economies" has been coined (for instance, Malone and Nitzschke, 2005, and Ballentine and Sherman, 2003). Yet, quite recently, the focus has shifted to a more balanced approach considering also their positive role in, for example, conflict resolution and peace building (International Alert, 2006).

A similarly well-studied unit of analysis is the group level. In particular, studies have examined the relationship between inequality and conflict. Examples are "horizontal inequalities" (Stewart, 1998, Stewart, 2004b), the role of high levels of ethnic and religious fragmentation in a society (e.g., Easterly and Levine, 1997, Bates, 1999), "polarization" (Esteban and Ray, 1999) and "categorical inequalities" (Tilly, 1998). Besides, diasporas have been found to be highly influential in the onset and course of a war (Van Hear, 1998).

Finally, some studies refer to the community level as the unit of analysis, for instance, when analyzing the role of local NGOs (e.g., van der Zwan, 2006) or community-based approaches to service delivery (e.g., Slaymaker et al., 2005, Goovaerts et al., 2005). Also, part of the decentralization and participation literature that is linked to conflict and violence can be counted to this strand (e.g., Sánchez and del Mar Palau, 2006).

An important finding from all these studies is that motives for participating in violent collective action differ widely (even for conflicting groups) and that – from a dynamic perspective – they change over time and the course of the conflict (Ballentine and Nitzschke, 2005, Humphreys and Weinstein, 2006). Furthermore, group formations tend to become increasingly pronounced during the war, thus, facilitating mobilization afterwards. This has been empirically confirmed by Collier et al. (2006) who estimate that post-war countries face an increased probability of 0.4 to return to war.

When thinking about transferring these findings from the conflict literature to fragility, the following two difficulties arise: First, the changeover or switch from ‘non’-fragility to fragility (or from a lower to a higher degree of fragility) takes place rather hidden and in a typically slower pace. There may be certain (e.g., political) events or actions that trigger fragility, but in order to become a persistent and systematic phenomenon, the country must undergo some social, economic, and political transformation.

Second, the line between deliberately strengthening fragile institutions (e.g., initiating or participating in political activities that contribute to destabilizing the political system) and being an ordinary player in the system as part of everyday life (e.g., by complying with a corrupt system or establishing political networks) may be blurred. Viewed from a different perspective, it is collective action that would actually be necessary to overcome certain structures of fragility and achieve a turnaround.

Future research will also have to look closer at the intersection of fragility and violent mass conflict – before, during, and after a war.

### **3.4 Effects of conflict and fragility**

Analyses of the impact of certain ‘events’ or ‘shocks’, such as trade liberalization and food insecurity, at the micro level are typically carried out on the basis of household survey data which have become increasingly available in developing countries.<sup>14</sup> Likewise, the bulk of microeconomic studies on the impact of conflict has centered around the household as unit of analysis.

However, the conflict literature has not yet developed a general analytical framework that could be adapted to fragility. Hence we sketch in the next section the various channels through which both conflict and fragility affect the household directly and indirectly. In the subsequent sections, we will discuss each of these channels in more detail.

#### **3.4.1 Channels through which conflict and fragility affect households**

Both conflict and fragility can be decomposed into two components (figure 1): One relates to a particular (social, political, and economic) environment that is characterized or broadly perceived as being conflict-affected or fragile. The second relates to specific events related to

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<sup>14</sup> Examples for other studies analysing the impact of conflict at the micro albeit not at the household level is the more qualitative literature on changing power relations at the community level (e.g., Vlassenroot and Raeymaekers, 2005).

violent mass conflict or fragility, such as the (war-related) death of a household member. We will label these components ‘institutional’ and ‘shock’ component, respectively.

Both components affect households in direct, albeit different ways. One analytical framework to better understand these channels is the vulnerability concept. However, in its standard formulation it is based on the assumption that shocks take place in a ‘normal’ (i.e., peaceful) development setting. We will first use this concept and later adapt it to our purposes.

The vulnerability concept has been applied in multiple ways by different disciplines such as sociology / anthropology, environmental science, health / nutrition and economics (for a review see, amongst others, Alwang et al., 2001, Fafchamps, 2003, Dercon, 2002, Ellis, 1998, and Morduch, 1995). As we are interested in vulnerability from a conceptual rather than a measurement perspective, we use the term in a broad fashion (see Alwang et al., 2001): A household is said to be vulnerable ‘from a certain risk’ (typically with regard to economic shocks or natural disasters) ‘to a certain outcome’ (e.g., poverty).<sup>15</sup> This allows us to capture what we called ‘shock’ component of conflict and fragility. Hence, how households are able to cope with risks related to war and fragility will depend on their available ex-ante (e.g., income diversification, Barrett et al., 2001, Dercon and Krishnan, 1996) and ex-post risk coping strategies (e.g., self-insurance or informal group-based risk-sharing, Fafchamps, 2003, Dercon, 2005, see also Morduch, 1995, Townsend, 1994, Alderman and Paxson, 1992, Rosenzweig and Binswanger, 1993, Binswanger, 1981).<sup>16</sup> These, in turn, depend on factors exogenous to the household, such as the local climate, economy, culture and infrastructure, and factors endogenous to the household, such as household composition and assets (Adams et al., 1998).

Additionally, by specifying vulnerability as ‘vulnerability to poverty’, we can easily link conflict and fragility to our main concern, namely poverty.

What we presented so far corresponds to the common way the vulnerability concept is used: the analysis of a household’s vulnerability to a shock. It does not explicitly capture what we labeled above ‘institutional’ component of conflict and fragility which affects the social, political, and economic environment of a household. It is this missing channel, however, that

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<sup>15</sup> As Alwang et al. (2001) point out, various disciplines have used the term vulnerability to specify an outcome at the one extreme and a pure risk at the other extreme.

<sup>16</sup> The term “risk coping strategy” encompasses both ex-ante and ex-post strategies which are frequently interrelated (Fafchamps, 2003).

makes conflict and fragility analyses different to the analysis of ‘pure’ shocks. It is also the reason why fragility, with its high persistence, results in such high economic costs hindering economic development and poverty reduction (compare section 2.2). Furthermore, via this institutional channel, conflict and fragility are likely to increase the vulnerability of households also to other shocks which are not necessarily related to conflict and fragility (such as illness).

The vulnerability concept as roughly outlined above can easily be extended to capture our second component as well. We will distinguish two ways through which the institutional channel works.

First, conflict and fragility influence ex-ante and ex-post coping strategies by affecting the factors endogenous and exogenous to the household. For instance, access to capital will be further restricted in a fragile environment or during war. Similarly, households will have difficulties in finding formal and informal insurance networks as many other households are exposed to and suffer from illness or death.

Second, conflict and fragility affect general economic, asset-accumulating activities (assets broadly defined). For instance, households may not be exposed to any direct shocks related to conflict / fragility. Moreover, households may be wealthy enough to separate (at least to some extent) asset-generating activities and risk-coping strategies, allowing them to maximize assets in a first step and minimize risk in a second step. Further, households may benefit from civil conflict or fragility by successfully taking advantage of the new opportunities created.

Viewed from a household perspective, institutional and shock channel lead to the following two effects (figure 1): On the one hand, to a ‘vulnerability effect’, i.e., an increase in a household’s vulnerability stemming from an increase in potential shocks a household is confronted with (‘shock component’) and from additional constraints with respect to both ex-ante and ex-post risk coping strategies that increase a household’s vulnerability from shocks in general (‘institutional component’). On the other hand, to a positive or negative ‘income effect’, i.e., a newly composed mix of asset-accumulating activities depending on the constraints but also opportunities created by a changed political, economic, and social environment (again ‘institutional component’). Adding up both effects, conflict and fragility may theoretically increase, decrease or have no influence at all on the welfare status of a household.

The major difference between conflict and fragility concerns the shock channel. Households in a ‘pure’ fragile environment (i.e. fragile but mainly peaceful) will experience specific shocks such as death or illness of a household member to a lower degree compared to households living in a conflict-affected area. Moreover, in the latter case, these shocks will tend to have a covariate character, thus, for example, weakening group-based insurance mechanisms.

An advantage of the framework is that it captures analyses of a household’s vulnerability from other, e.g. economic, shocks to poverty in a conflict-ridden or fragile environment. For example, Eriksen and Lind (2005) study the impact of conflict on household vulnerability to climate stress. Such an analysis would not be part of the framework if we treated wars and fragility as ‘pure’ shocks only.

### **3.4.2 The ‘shock’ channel**

Households in developing countries, particularly in rural areas with high poverty, are exposed to many significant shocks and have generally less resources available to cope with them (Fafchamps, 2003). Thus, if a civil conflict or fragility occurs, households are confronted with an additional source of potential shocks.

Similar to other shocks, risks associated with an ongoing war or fragility can be of low or high frequency and intensity, they can be auto-correlated or non-stationary and they can be covariate or idiosyncratic (Morduch, 1999, Fafchamps, 2003). Moreover, there may be spatial differences depending on whether the source of a conflict or fragility is located predominantly at the local, meso or macro level (compare Slaymaker et al., 2005).

As mentioned above, households living in areas with violent mass conflict will be exposed to a higher frequency and intensity of (typically covariate) shocks than households living in fragile environments. Therefore, the unit of analysis itself will frequently be affected if, for instance, a household is destroyed – running counter also to the effects of economic shocks. In fragile environments instead, household structure and composition change rather in response to the institutional environment. Modifications will be less pronounced and subject to a comparably slow process, e.g., touching gender relations and fertility.<sup>17</sup>

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<sup>17</sup> Such changes that affect the unit of analysis itself can turn out to pose serious problems for empirical analyses using household survey data collected in conflict and fragile regions. This is a still under-researched area; for a detailed discussion see Brück and Schindler (2007), see also Clark (2006).

Looking at potential household coping strategies, factors exogenous as well as endogenous to the household will be modified by the institutional impact of conflict / fragility. Therefore, the set of choices potentially available to the household will be constrained as compared to a 'normal' development setting. With respect to exogenous factors, for instance, fewer public goods will be provided and/or people face constraints in accessing them (Slaymaker et al., 2005). Besides, albeit formal insurance is already quite rare in a 'normal' development setting, formal insurance for shocks related to civil wars does not even exist. Furthermore, informal coping mechanisms are likely to be weak substitutes since, for instance, communities (or community organizations) might break apart in the course of civil war, e.g. if households are displaced, or since the entire community is affected.

As regards those factors endogenous to the household, conflict studies suggest that households with fewer assets manage worse than other households (Justino, 2006). On the other hand, Bundervoet (2006) finds that also households with a higher value of livestock are forced to reduce their share in cash crop, falling back into subsistence food crop cultivation. Besides, female and widow-headed households are likely to suffer more than other households (Brück and Schindler, 2007, El-Bushra, 2003).

In general, ex-ante as well as ex-post coping strategies demand households to reallocate their resources. This comes at a certain cost to the household and may affect individual household members differently. For instance, Shemyakina (2006) shows for Tajikistan a significant negative impact of the conflict on girls' school enrolment rates. With regard to fragility, research findings by De Herdt (2006) for Kinshasa suggest that the costs are passed on to girls. There is furthermore a large literature on the impact of conflict on the health of, especially, children and women (WHO, 2002, Alderman et al., 2004, Bundervoet and Verwimp, 2005, Akresh and Verwimp, 2006, amongst others).

### **3.4.3 The 'institutional' channel**

As the shock channel as well as the institutional channel is connected through the vulnerability concept, we have already touched some of the institutional aspects in the previous section.

The institutional channel captures the more systematic social, economic, and political features of conflict and fragility. A helpful classification of institutions has been proposed by Williamson (2000). He distinguishes four hierarchy levels: "embeddedness" (informal

institutions, customs, norms, etc.), “institutional environment” (formal rules of the game, especially property rights), “governance” (play of the game, especially contracts), and “resource allocation and employment”. Compared to shocks, these institutional aspects are – albeit to a varying degree – of a rather permanent or long-term nature.

The destruction of infrastructure, lack in public services, reduced public expenditure in education, less access to credits and higher interest rates following general insecurity are all examples for a changed institutional environment (e.g., Deininger, 2003, Slaymaker et al., 2005, see also previous section). Besides, labor market and transaction costs will increase following social tensions, insecurity or erratic changes in regulations (compare Miaari and Sauer, 2006, Collier, 1999).

With regard to changes that take place in society, as Goodhand (2001) points out, it is difficult to untangle changes related to conflict / fragility from general social change. Nonetheless, the institutional channel may help us to study the role of local institutions, communities, networks and markets at the household level as well as the transition from conflict to peace. Furthermore, the role of state institutions in conflict-affected and especially in fragile environments can be incorporated via the institutional channel and may thus allow for a rapprochement to the state-centric definitions or views of fragility.

#### **3.4.4 Conflict and fragility traps**

We now turn to the indirect effect or channel, bringing in a dynamic perspective. Our illustrations so far suggest that conflicts and fragility increase a household’s vulnerability. If, in fact, a shock occurs, ex-post risk coping strategies are likely to be insufficient for a household to fully recover. In that case, households do not reach their old status quo prior to the shock (compare the concept of resilience, e.g., Moser, 1998). This is in accordance with evidence from conflict-affected areas suggesting that many households fall back to subsistence (Brück, 2004, Deininger, 2003, McKay and Loveridge, 2005). As a consequence, a household’s income-generating choices become less and its sensitivity to future shocks increases (Moser, 1998, Alwang et al., 2001). Thus, if households do not ‘manage’ to recover after a sufficient time has past and this process repeats, one can imagine that households (and countries) will find themselves already soon in a conflict and / or fragility trap. For conflicts, the evidence of traps has been widely acknowledged (e.g., Collier et al., 2003). Moreover, in case not only a few but many households cope badly, the aggregate, institutional level will be

affected which will, in turn, alter a households' income-generating activities and risk coping strategies.

With respect to fragility, the driving forces behind this process will come above all via the institutional channel and its effects on the general asset-accumulating activities. Indeed, its main effect will presumably be on considerably constraining households' coping strategies with regard to risks in general – not only those related to 'fragility shocks'. This coincides with the observation that the impact of these shocks on households living in fragile environments is very high and persistent. In contrast, the shock channel is likely to play its part with regard to conflict traps.

## **4 Conclusions**

There is a general acknowledgment that fragile as well as conflict-affected countries need a 'special' treatment compared with other developing countries. Moreover, there is no one-size-fits-all approach to these countries. How to develop policies for a specific country is yet a rather open question. Hence our attempt to bring in a microeconomic perspective: Knowing more about household behavior in different fragile and conflict-ridden environments will allow us to be more sensitive towards key aspects that need to be considered when designing policies at the local and national level. Here, particular attention should be paid to the makeup of institutions.

Furthermore, similar to the finding of conflict traps, there is the danger of households, communities, and even entire countries sliding into a fragility trap. This may support the need for a big push strategy of aid for these countries – not necessarily in terms of cash but in terms of building up capacity, institutions, and markets.

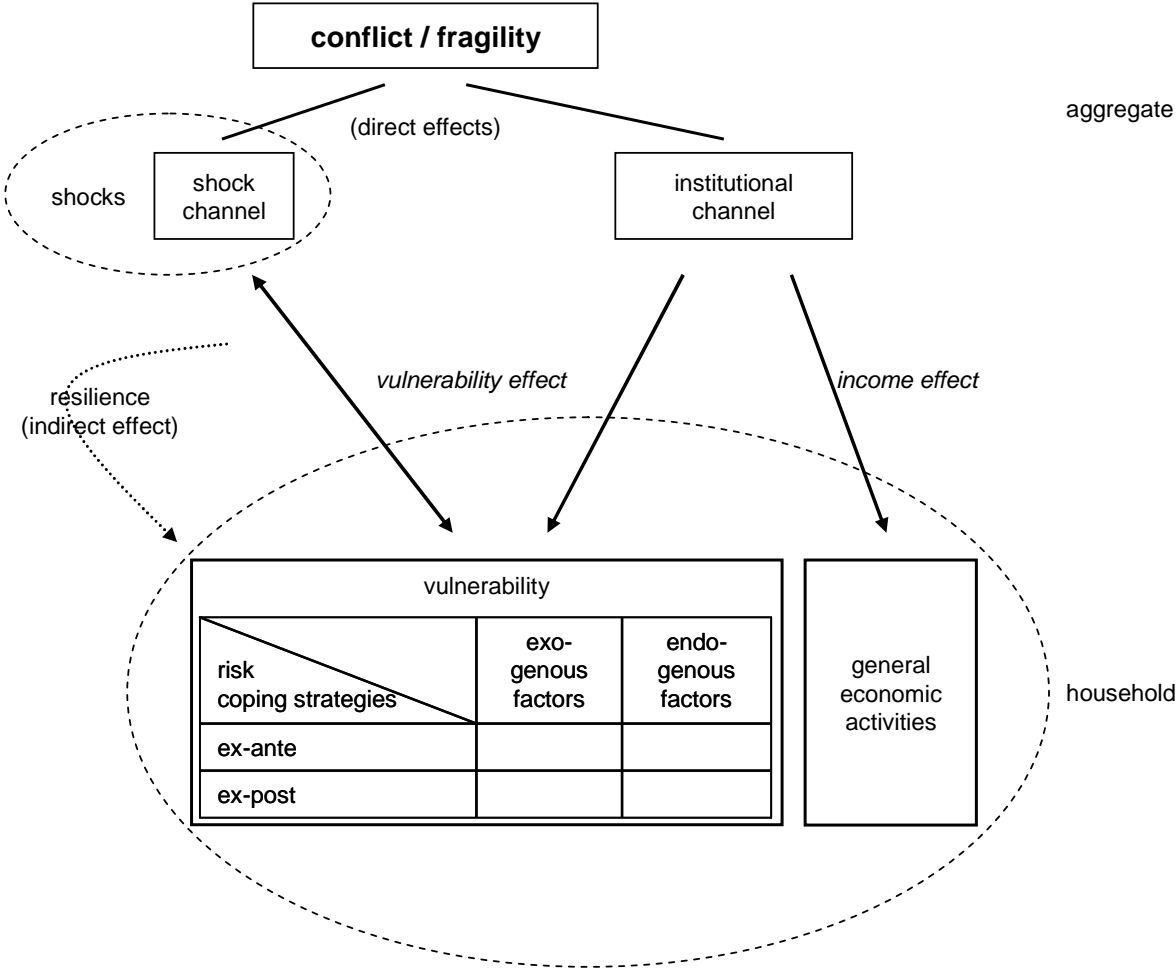
Due to the lack of appropriate data, an important methodological implication for the design of empirical research is the imperative of adapting household surveys to include conflict- and fragility-related questions; e.g., questions on intra-household changes since the outbreak of war and the early post-conflict period. So far, researchers are frequently left up collecting their own data to gain information relevant to their analysis. These surveys are, however, typically of a small scale, i.e. non-representative.

As the academic literature on fragility is still in its infancy, there are quite many topics for future research. Amongst others, we need to know more about differences and similarities between conflict, post-conflict (as a particular type of fragility), and fragility settings. Also,

more research needs to be done on the causes of fragility (as compared to conflict). Furthermore, the role expectations and hope play in fragile states in household decision making and risk coping strategies is fairly under-researched. Especially in post-conflict states which face high risks of returning to war these may be very crucial. Additionally, the impact of both conflict and fragility on household structure and composition as well as wider social dimension are fairly unknown.

In view of the programming of assistance, future research is required on evaluating aid programs in conflict-affected and fragile environments. This, in turn, will require the development of joint projects of donors, researchers, and practitioners from the very beginning when a specific program is designed.

**Figure 1:** Conceptual framework for analyzing the impact of conflict and fragility at the household level



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