War, Peace and Durable Economic Recovery

A schoolchild uses the light emitted from a private compound to complete homework late at night, Monrovia, Liberia, December 2005. (Tim A. Hetherington/Panos Pictures)

1.1 The challenges of sustainable post-conflict recovery

As the Cold War ended in 1989, a number of civil wars fueled by its antagonisms came to an end, while some new ones erupted across the world. Many of these new wars have also since ended, in some cases partly due to international peacekeeping interventions. There are now perhaps 35 countries that may be described as having entered a post-conflict phase since the early 1990s. Many of these are low-income countries and thus pose additional challenges to policy makers and the international community working for post-conflict recovery.

Countries emerging from violent conflict face extraordinary constraints mobilizing the human and financial resources that are urgently needed, first for humanitarian relief and subsequently for economic recovery. Often critically short of almost all types of expertise, newly installed (often transitional) authorities have to deal simultaneously with several major challenges. They have to preserve the peace and safeguard security; re-integrate ex-combatants and resettle internally displaced persons (IDPs) and returning refugees; rehabilitate essential infrastructure and key public institutions; and restore private investors' confidence. They must also revive the public finance regime and reassert control over key national assets. Finally, they must promote conditions that make the resumption of conflict less likely, including by generating employment opportunities, tackling horizontal inequalities[1] and rent seeking, as well as by re-establishing mechanisms to ensure the rule of law, such as transitional justice processes.

The implications of these extraordinary constraints have yet to be fully recognized by the international community and reflected in its design of strategies and programmes of assistance for post-conflict countries.[2] At the outset, it bears emphasizing that the post-conflict economy is not simply a 'normal' economy that happens to be in great distress. In particular, the massive destruction of assets, the disruption of social networks and the distortion of signals and incentives that generally constitute the legacy of violent conflict indicate a long transition to 'normalcy'.[3] Because "we now understand that the process of returning from a war situation to a normal development situation is one of overlapping stages—like colours in a rainbow—rather than a series of discrete steps that follow neatly one after another",[4] we also recognize the need for special creativity in policy design, sequencing and implementation.

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Conflict diverts resources from production to destruction. The economic legacy of conflict also includes capital flight, the destruction of assets and a corresponding reduction in economic production. Furthermore, the distorted system of asset acquisition and resource use in conflict situations leaves behind a perverse system of incentives and a highly disabling environment for legitimate private-sector investment. Capital flight and investor confidence can be particularly difficult to reverse when hostilities end. Markets will have been severely compromised at all levels from village produce exchanges to national commodity and financial exchanges. With the devastation of legitimate economic activity, parallel, often illicit economies emerge that enrich warlords and sustain their constituents. Given the difficulties in reviving legal economies in the aftermath of violent conflict, these parallel economies constitute a continuing lure.

Even after the ostensible end of conflict, insecurity and sporadic violence obstruct recovery and reconstruction efforts and impede the resumption of basic services, such as electricity, water and gas, and other normal economic activities. The pervasive instability also hampers the re-establishment of government authority and administrative services at the local level. Initiating post-conflict recovery is greatly complicated by the simple fact that the state often has little revenue to pay for even such basic expenditures as civil servants' salaries. Moreover, contestation among key political stakeholders over who has legitimacy and authority can further exacerbate the situation by undermining people's confidence in the state.

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This is a typical picture of the post-conflict economy. However, there are important exceptions where state functions and regular economic activities have been maintained reasonably effectively during conflict. This is particularly likely to be the case where the conflict has been confined to a relatively small part of a country.

1.2 Defining post-conflict economic recovery

What does economic recovery mean in the aftermath of war? From a strictly economic perspective it could mean the return to pre-conflict output and employment levels. Indeed, one perspective views recovery as a return to the highest level of gross domestic product (GDP) per capita attained during the five years preceding the conflict.[5] It is possible, however, that growth rates in the period before the outbreak of violence may have been very low, or even negative. In these cases, it it is not desirable for the country to return to its pre-war GDP growth trajectory.

A much broader perspective sees economic recovery as achieving socio-economic well-being, involving "food security, public health, shelter, educational systems, and a social safety net for all citizens… [and]… an economic strategy for assistance that [is] designed to ensure the reconstruction of physical infrastructure, to generate employment, to open markets, to create legal and regulatory reforms, to lay down the foundation for international trade and investment, and to establish transparent banking and financial institutions".[6] Such a maximalist definition runs the risk of conflating recovery from conflict with overcoming underdevelopment more broadly. In contrast, a narrow emphasis on growth alone may understate the sheer complexity of managing the economic consequences of conflict as identified above. For instance, as Tony Addison argues, growth that favours only a narrow elite risks perpetuating or even exacerbating grievances and therefore raising the incentives for violence among those who remain marginalized. More crucially, it provides no relief to the poor who almost always bear the brunt of war.[7]

The international community works with several notions of recovery. For instance, the World Bank advances the notion of post-conflict reconstruction, which it defines as "the rebuilding of the socio-economic framework of society" and "the reconstruction of the enabling conditions for a functioning peacetime society, explicitly including governance and rule of law as essential components".[8] Emphasizing capacity development, the United Nations Development Programme (UNDP) sees recovery as the process of return from instability and conflict to a 'normal' development trajectory, where a country has "reacquired the capability to make and implement economic policy as part of a largely self-sustaining process of economic governance".[9] At a minimum, economic recovery requires the establishment of basic security, the reassertion of the rule of law, a coherent macroeconomic framework and an effective system of oversight and accountability. Where a post-conflict country has also been able to rebuild the founda-

tions for domestic revenue mobilization, and for repairing the damaged social and human capital matrix, it may be said to be on the path of sustainable recovery.

Successful economic recovery, therefore, cannot simply be a return to pre-war income levels and growth rates. Rather, it must involve growth rates that permit a structural break with the past. This means growth must be sustained at significantly higher than historical rates, and should be accompanied by significant employment creation and by action to reduce severe horizontal inequalities. Terms such as 'recovery', 'reconstruction' and 'rebuilding' might suggest a return to the *status quo* before the conflict. Typically, however, developmental pathologies such as extreme inequality, poverty, corruption, exclusion, institutional decay, poor policy design and economic mismanagement will have contributed to armed conflicts in the first instance and will have been further exacerbated during conflict. Accordingly, post-conflict recovery is often not about restoring pre-war economic or institutional arrangements; rather, it is about creating a new political economy dispensation. It is not about simply building back, but about building back *differently and better*. As such, economic recovery as conceived in this report is essentially transformative, requiring a mix of far-reaching economic, institutional, legal and policy reforms that allow war-torn countries to re-establish the foundations for self-sustaining development.

When then does the business of economic recovery begin? Possible benchmarks could be the conclusion of a peace agreement or a clear military victory. However, these events do not always signal an effective end to violence, often because there are many warring factions. Another benchmark could be the decline of battle deaths below a certain threshold; but such numerical thresholds do not necessarily signify the beginning of a sustainable transition to peace. One approach defines the post-conflict transition in explicitly transitional and provisional terms: a "situation where a conflict … has subsided to a degree to which … international assistance is both possible and sustainable".[10] However, not only is this view too externally driven, but in some cases aid has been sustained even during the course of conflict.

> Post-conflict recovery is about creating a new political economy dispensation. It is about building back *differently* and *better*.

In this report, we suggest characterizing post-conflict countries according to their progress over a range of 'peace milestones'.[11] Using this approach, a post-conflict country is seen as lying along a continuum marked by these milestones. It is acknowledged that countries can sometimes move backwards, but as long as a country does not slip back on too many at once, it can reasonably be expected to continue towards recovery. The following are the most important peace milestones:

- cessation of hostilities and violence;
- signing of peace agreements;
- inception of demobilization, disarmament and reintegration;
- return of refugees and IDPs;
- establishment of the foundations for a functioning state;
- initiation of reconciliation and societal integration; and
- start of economic recovery.

Table 1.1 **Peace milestones and indicators of progress**

Peace milestones	Possible indicators of progress
Cessation of hostilities and violence	▪ Reduction in the number of conflict fatalities ▪ Reduction in the number of violent attacks ▪ Time passed since major fighting stopped
Signing of political/peace agreements	▪ Signing of and adherence to ceasefire agreements ▪ Signing and implementation of a comprehensive political agreement ▪ which addresses the causes of the conflict ▪ Endorsement of peace/political agreement by all major factions and parties to the conflict
Demobilization, disarmament and reintegration	▪ Number of weapons handed in ▪ Number/proportion of combatants released from military duty and returned to civilian life ▪ Number/proportion of combatants released from active duty and returned to barracks ▪ Number of military barracks closed ▪ Success of reinsertion programmes for ex-combatants ▪ Reduction in total number of active soldiers and combatants ▪ Spending cuts on military procurement
Return and resettlement of refugees and IDPs	▪ Number/proportion of displaced persons and refugees who have returned home voluntarily ▪ Number of displaced persons and refugees still living involuntarily in refugee centres within the conflict country or abroad
Establishment of a functioning state	▪ The extent to which impunity and lawlessness has been reduced ▪ The extent to which the rule of law is introduced and maintained ▪ The extent to which corruption has been reduced ▪ Tax revenue as a proportion of GDP
Achieving reconciliation and societal integration	▪ Number of violent incidents between groups reduced ▪ Perceptions of 'others' (via surveys) ▪ Extent of trust (via surveys)
Economic recovery	▪ Restored economic growth ▪ Increased revenue mobilization ▪ The restoration of economic infrastructure ▪ Increased private sector investment

Envisaging recovery as a journey rather than a destination, we may identify some possible indicators of progress (Table 1.1).

Three general points need to be made about these milestones. First, we may observe regress in these processes, including in terms of hostilities restarting. Second, activities and interventions contributing to these processes can, and should, be undertaken wherever possible, even during the conflict phase itself. From the perspective of policies towards post-conflict economic recovery, it is never too early to start. In many countries, international support for development has been suspended or postponed during conflict because the conditions are regarded as inappropriate, while the external resources that are provided are focused on humanitarian aid.[12] Admittedly, ongoing conflict makes it more difficult to implement recovery policies, and indeed may affect their design, as we see today in Afghanistan and Iraq. In other cases, as in Sierra Leone for example, it was possible to initiate some recovery activities even while the conflict was still going on in the late 1990s and up to 2001. Several months before the actual end of fighting, the government and its external partners were already seeing the light at the end of the tunnel. Third, while reaching some of these milestones may be partly contingent upon the prior achievement of other milestones no strict sequential order needs to happen. For instance, refugee repatriation often commences soon after the cessation of violence and hostilities, even when formal political agreements are not yet in place, or when conflict parties are still negotiating a settlement.

Using this multivariate approach, Table 1.2 lists the countries that are generally accepted as being 'post-conflict' among countries whose conflicts ended after 1989.[13]

Table 1.2 **List of post-conflict countries**

Country	Major conflict episode(s)	Current status
Afghanistan [a,b,d]	1978–1991, 1991–2002, 2005[d]	On-going insurgency
Angola [a,b,c(2001),d]	1975–1994, 1997–2002	Peace
Azerbaijan [a,b,c,d]	1991–1994	Peace
Bosnia and Herzegovina [a,b,c(1990),d]	1992–1995	Peace
Burundi [1]	1991–2002	Peace, with implementation challenges
Cambodia [2]	1970–1975, 1978–1991	Peace
Chad [3]	1965–1988, 1990, 2006–2007	Revived insurgency
Congo, Democratic Republic of the [a,c,d]	1996–1997, 1998–2001	On-going insurgency
Congo, Republic of [a,b,c,d]	1993– 1997, 1998–1999	Peace
Côte d'Ivoire [4]	2002–2004 [d]	No comprehensive settlement
Croatia [a,b,c,d]	1991–1993	Peace
El Salvador [a,b,c,d(1980-1991)]	1979–1991	Peace
Eritrea [5]	1974–1991	Peace, with unresolved border disputes
Ethiopia [a,b,c,d]	1974–1991	Peace, with unresolved border disputes
Georgia [a,b(1992),c,d(1993)]	1991–1994	Peace, with unresolved territorial claims
Guatemala [a,b(1996),d(1995)]	1965–1995	Peace
Guinea-Bissau [a,b,c(1998),d]	1998–1999	Peace
Haiti [a]	1991–1995	Continuing instability
Indonesia (Aceh) [a,d]	1990–2006	Peace
Kosovo [a,b,c,d]	1998–1999	Peace, unresolved status
Lebanon [a(1991),b,c]	1975–1990	No comprehensive settlement
Liberia [a,b,c,d]	1989–1990, 1992–1997, 1999–2003	Peace
Mozambique [a,b,(1981),c(1979),d]	1976–1992	Peace
Namibia [a,b(1965),c(1976)]	1973–1989	Peace
Nepal [a,b,d]	1996–2006	Peace (elections held in April and July 2008)
Nicaragua [a,b,c,d(1981-1989)]	1978–1979, 1979–1990	Peace
Papua New Guinea [a(1998),b,1997,d]	1989–1996	Peace
Rwanda [a,b,c,d]	1990–1993, 1994, 1998–1999, 2001	Peace
Sierra Leone [a,b,c(1998-2001),d(2000)]	1991–1996, 1997–2001	Peace
Solomon Islands [b]	1998–2003	Peace
Somalia (Somaliland region) [6,a,b,c(1989)]	1988–1991	Unresolved territorial status
Sri Lanka [a,b,c,d]	1983–2002, 2005–	On-going insurgency
Sudan (North/South conflict) [a,b,c,d]	1983–2002	Peace
Tajikistan [a,b(1998)c,d91998)]	1992–1997	Peace
Timor-Leste [a,b,d]	1975–1999	Peace
Uganda [a(1987),b,c]	1979–1991	Peace

[a] Sambanis, 2003, and Doyle and Sambanis, 2006, Table 3:1.
[b] Marshall, 2008.
[c] Gleditsch, 2004.
[d] UCDP, 2008.

Notes on table:
[1] Burundi: Date of conflict onset: 1991 (a and d), 1993 (b and c). Date of conflict termination: 2002 (c), 2005 (b). End of major hostilities: (d). End of conflict: 2006 (d), no data (a).
[2] Cambodia: Date conflict onset: 1967 (d), 1970 (a,b, and c). End major violence: 1989 (b and d), 1991 (a and c). End conflict: 1997 (b and c), 1998 (d).
[3] Chad: Date of conflict onset: 1965 (a,b), 1966 (c). Episodes of major violence: 1965-1997 (a), 1965-1994, 2005-2007 (b), 1966-1971, 1980-1988, 1990 (c), 2006 (d).
[4] Côte d'Ivoire: Date conflict onset: 2000 (b), 2002 (d). Date conflict termination: 2005 (b), 2004 (d). No data (a and c).
[5] Eritrea was part of Ethiopia during this conflict. As Eritrea became an independent state as a result of the conflict, it is considered as a separate post-conflict country.
6 Somaliland region: The self-declared republic of Somaliland, formerly known as the northwest region of the Somali Republic.

Note on sources: This list of post-conflict countries is confined to armed intra-state conflicts that ended, or significantly diminished, after the end of the Cold War. It is derived from the best available and most recent evidence of leading conflict databases. Continuing discrepancies among these databases regarding the dates of conflict onset and termination, as well as the categorization of the conflict, are a result of different selection criteria, periods of coverage, and the analytical purposes of individual databases. For a full discussion of the empirical and methodological challenges of defining civil war, armed conflict, and other forms of political violence, see Sambanis, 2004a.

1.3 Why post-conflict economic recovery is important

Major episodes of violent conflict inflict great suffering on people and cause considerable damage to the economy, as described in Chapter 2. Thus the most obvious reason post-conflict economic recovery is important is to reverse some of this destruction, to generate incomes and to improve social services for the long-suffering populations. In the short to medium term some hardship can be alleviated by aid, but ultimately countries have to generate their own resources to meet the bulk of their population's needs. This requires economic recovery and growth.

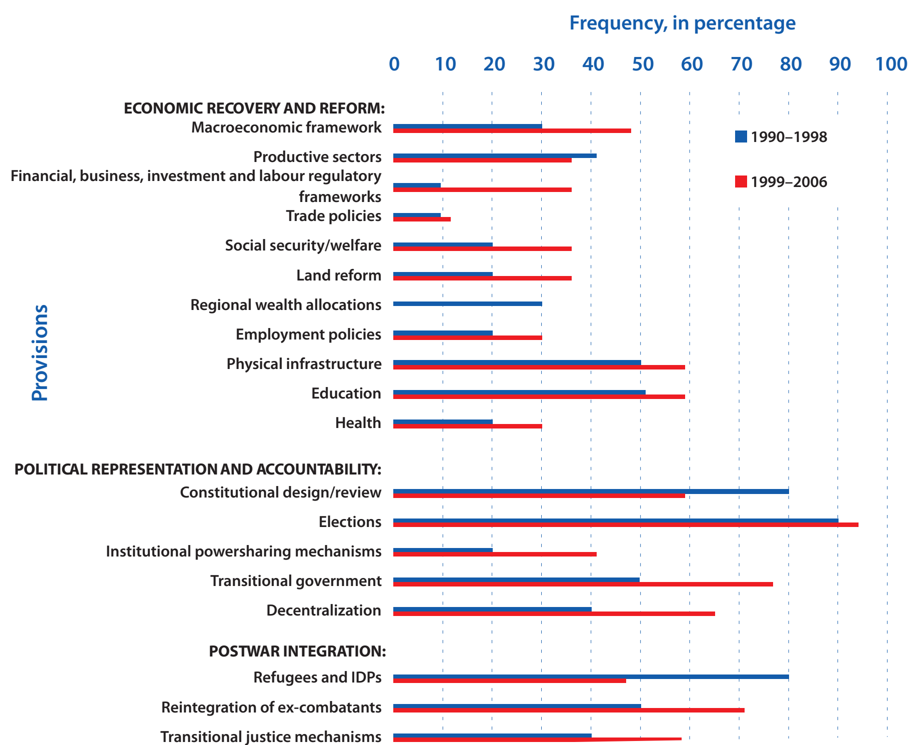
The second reason why post-conflict economic recovery is important is that it can help reduce the risk of conflict recurrence. Of course, if conflict returns it threatens economic recovery itself. Chapter 2 indicates some economic conditions that can raise the risk of conflict recurrence. Major risk factors are low per capita incomes; weak economic growth; the existence of severe socioeconomic horizontal (group) inequalities; a deficiency of employment opportunities, especially for young men; and the existence of abundant high-value natural resources. Successful economic recovery can contribute directly to reversing the first two conditions of low per capita incomes and weak economic growth. However, economic growth in itself may not contribute directly to the other conditions. Dealing with these risk factors necessitates a so-called 'conflict-sensitive' approach.[14] Such an approach also requires that recovery interventions consciously avoid aggravating conflict, for instance by anticipating their implications for group inequalities. This approach suggests that policies for economic recovery should seek to expand employment rapidly, reduce horizontal inequalities where they are severe, build a sustainable fiscal basis for the state, and reduce the rent seeking that is often associated with the presence of valuable natural resources. Broadly speaking then, inclusive economic growth will do much to reduce the risks of conflict recurrence, and is important for this reason, as well as to improve people's lives generally.

There is a growing awareness of the importance of economic issues for sustained peace, as shown by the increase in the number of economic and economic governance conditions in peace negotiations and peace agreements. A recent World Bank/UNDP-commissioned survey found that provisions related to macroeconomic policies, financial, business, investment and labour-regulatory frameworks and regional wealth allocation increased significantly between the periods 1990–1998 and 1999–2006, as have references to social welfare, education, health, and employment policy (Figure 1.1). Likewise, the inclusion in such agreements of provisions concerning public administration and governance (for example, civil service reforms, the reorganization of public administration policies, anti-corruption strategies, and policies on revenue collection mechanisms) increased three-fold between the two periods.[15]

This increasing recognition of the importance of economic recovery has led to new approaches that seek to integrate economic recovery into broader strategies of post-conflict peace building. Greater policy emphasis and donor resources in post-conflict countries are now being directed to a range of socioeconomic tasks beyond the conventional objective of macroeconomic stabilization in support of consolidating peace. Specialized units have been established by multilateral and bilateral development agencies to work on issues of post-conflict recovery, reconstruction and transformation. Such units include UNDP's own Bureau for Crisis Prevention and Recovery (BCPR) and the World Bank's Low Income Countries Under Stress (LICUS) initiative (now the Fragile and Conflict Affected Countries Program).[16] Their objectives include support to post-conflict countries in rebuilding civilian infrastructure, promoting economic opportunity and ensuring

the socioeconomic as well as the political inclusion of marginalized groups, and reforming the legal and regulatory foundations for trade and investment.[17] In tandem, there has been a renewed focus on restoring and reforming the institutions of economic governance that are the essential anchors of thriving markets. This has led to an increase in post-conflict projects that emphasize the early recovery of human and social capacities and to state-building initiatives that target improved governance and professional capacity for fiscal management, as well as the fundamental reform of civil administration and regulatory capacity.[18]

Figure 1.1 **Provisions in recent peace agreements**



Source: UNDP and Christian Michelsen Institute, 2006.

1.4 The need for a context-appropriate approach

Although most post-conflict countries have some similarities, they do usually differ in many important respects, and require different policies to direct recovery. However, it is possible to group post-conflict countries loosely around certain commonalities and variations in a way that is helpful for formulating policies.

First, countries may be differentiated by their level of per capita income. Most post-conflict countries are characterized by low incomes, although some are middle-income countries. Low-income countries generally have special problems including deficient infrastructure and human resources, heavy dependence on external aid, and high indebtedness. They may also find it especially difficult to attract private overseas capital.

A second source of difference is whether or not there are sharp horizontal inequalities. These pose particular problems for policy makers. On top of the normal development objectives of growth and poverty reduction, policies must be introduced to reduce these disparities.

Third, countries rich in natural resources differ from those lacking such resources. This is partly because these resources could be used to finance much of a country's own recovery, so that these countries could be less dependent on the international community. Resource-rich countries may also find it easier to attract foreign investment, if only to help exploit the resources. On the other hand, such resources often lead to increased levels of corruption and rent seeking and thereby raise the risks of conflict recurrence.

Fourth, countries differ in terms of how much economic destruction happened during the conflict, the loss of human and financial capital and the undermining of institutions. They also differ in terms of the international conditions they face. Two particularly important ones are the international commitment to provide them with resources to sustain peace and promote recovery and development, and the extent to which they are caught in regional conflict entanglements.[19]

A child stands in a destroyed building, the walls riddled with bullet holes, Kuito, Bie Province, Angola, June 2000 (Ami Vitale/Panos Pictures)

1.5 Outline of the report

Chapter 2 considers the factors likely to raise the risk of conflict recurrence, and then examines the legacies of armed conflict and the challenges they pose for post-conflict peace-building and economic recovery. The achievement of a stable peace is the single most important factor for achieving sustainable economic recovery. However, although peacekeeping efforts have recorded greater success over the last decade, many post-conflict countries remain seriously vulnerable to renewed conflict. The chapter highlights the type of post-conflict conditions that appear to make conflict recurrence more likely. Low incomes, slow growth, high levels of inequality and mass unemployment place additional burdens on already fragile societies, and therefore increase the risks of conflict recurrence and development setbacks. Chapter 2 suggests that targeting these factors should be central in well-designed, conflict-sensitive policies for economic recovery. It points, therefore, to the three critical objectives of restoring economic growth, generating productive work, and tackling horizontal inequalities. Policies to reduce the conflict potential of natural resources are also needed.

Chapter 2 also details the damage done to physical infrastructure, economic assets and human capacity, and to the critical institutions of economic governance. Even though conflicts destroy lives and livelihoods, the chapter shows that some economic activities continue during and remain after war.

While civil war destroys a good deal of the formal economy, it does not destroy economic life altogether. Rather, it pushes production, trade and commerce from the formal into the informal sector. The chapter sets out one major theme of this report, which is that despite their many similarities, post-conflict economies do vary in many ways from country to country. The actual situation depends on the length, scope and intensity of the armed conflict, the terms of the peace and the level of development prior to conflict. Some countries emerge from war with a reserve of economic assets, human capital, functioning institutions and a formal economy that still works. Others are not so lucky and face large hurdles both to sustainable peace and to economic recovery.

> Civil war does not destroy economic life altogether… it pushes production, trade and commerce from the formal into the informal sector.

Chapter 3 considers mechanisms and policies for promoting context-appropriate and conflict-sensitive development. The many informal economic activities that emerge during and after conflict provide some scope for war-affected populations to cope, and sometimes create, new opportunities for entrepreneurs. War economies do not end with the formal cessation of hostilities. They shape and constrain the context for peace-building generally, as well as the potential for the successful reconstruction and recovery of the formal economy. The chapter introduces the notion of 'indigenous drivers' of economic recovery. This notion is intended to capture how the spontaneous efforts and initiatives of local communities, individuals, households and enterprises to regain their lives after conflict stimulate and propel economic activity. Against this background, the chapter examines whether and how external interventions can help or hinder the productive capacities of war-torn states.

The chapter emphasizes the need to understand fully the social, political and economic tensions that may have contributed to, or even may have newly arisen, in the course of conflict. This message is critical whether the issue is demobilizing, disarmaming and reintegrating of ex-combatants, creating employment and restoring livelihoods, or rehabilitating the social and economic infrastructure. In particular, post-conflict recovery strategies must be based not merely on needs assessments but also on *capacity* assessments, in order to better ground assistance efforts in supporting local ingenuity. Instruments such as post-conflict needs assessments (PCNAs) must be deepened to include full capacity assessments, entailing an inventory of local knowledge and existing initiatives. Multi-donor trust funds (MDTFs) or similar pooled funding mechanisms should be perceived as an important vehicle to promote local leadership and coherence in financial support for recovery. Even if they provide only a small proportion of overall financial flows, they are ideal instruments for predictable, unearmarked multi-year financing. They can give post-conflict leaders much-needed breathing space to re-establish local consultative mechanisms and to anchor the rebuilding of local capacity for policy and planning design and implementation. They can also be a feasible mechanism for focusing on sensitive issues, such as land and property rights.

Chapter 4 reassesses the macroeconomic policy frameworks for post-conflict recovery. Based on the available data for post-conflict countries it looks more closely at the macroeconomic drivers of recovery, focusing on a subset of 29 countries. It finds that war-torn countries that have been successful in re-establishing functioning economies have been able to do so using quite varied sets of policies. To determine elements in the substance, processes and mechanisms of policy that may explain the diver-

sity of recovery experience, the chapter reviews approaches to trade and investment facilitation, monetary policy, fiscal policy, the management of official development assistance (ODA) and debt management. It notes broad differences in the sequencing, nature and pace of reforms, and in matters of competitiveness and policy credibility. It also explores issues of restoring monetary and financial oversight, and of revenue mobilization and fiscal autonomy. On the expenditure side, it looks at how recovering countries have balanced the tension between the requirements of macroeconomic stability and sustaining social and political stability.

The chapter suggests that there is considerable merit in explicit policy sequencing. It also suggests that successful economic recovery requires governments and domestic political leaderships that are truly committed to economic reform and to catalysing post-conflict recovery. Aid and debt relief can be useful in allowing post-conflict governments some political and fiscal space to design policies and seek social and political buy-in. It is critical, however, that aid does not undermine local capacity but works with and builds on it.

Chapter 5 explores the role of the state in economic recovery. Reconstituting a capable state is often an imperative for consolidating peace and for sustainable development, because the legitimacy, authority and effectiveness of the state have most probably been fractured prior to the eruption of full-blown conflict. The chapter highlights variations in the capabilities of post-conflict states, and explains why neither one size nor one model for state-building reform fits all contexts. It examines key institutional capacities, such as public administration and regulatory oversight, which are essential to economic revival. The chapter describes how successful economic recovery and the consolidation of peace can happen under diverse constitutional, institutional and political conditions. It re-emphasizes the critical need to identify and better harness the functioning institutions of governance that may already exist. It concludes with a summary of the implications for international efforts for fostering self-sustaining state capacities for post-conflict economic recovery.

Chapter 1 notes

[1] Frances Stewart defines *horizontal inequalities* to be "severe inequalities between culturally defined groups" which she differentiates from *vertical inequalities*, "which line individuals or households up vertically and measures inequality over a range of individuals". See Stewart, 2002, p. 3.

[2] As recently as 20 May 2008, the United Nations Security Council (UNSC) conducted, at the request of the British Government, an open debate addressing challenges impeding international efforts to assist with post-conflict recovery and peacebuilding. For the statement of the Security Council President see UNSC, 2008.

[3] The differences between the 'normal' and 'post-conflict' economies apply also to economies in the aftermath of massive natural disasters. The main differences between the post-conflict and post-natural disaster settings are, firstly, the greater likelihood that effective state capacity exists in the post-disaster situation and, secondly, the greater likelihood of renewed violence in the post-conflict situation.

[4] UNDP, 2005a.

[5] Flores and Nooruddin, 2007.

[6] Mendelson-Forman, 2002.

[7] Addison, 2003.

[8] World Bank, 1998.

[9] UNDP, 2005a.

[10] AFDB, 2004.

[11] Stewart et al., 2007a.

[12] Stewart and Fitzgerald, 2001a.

[13] Table 1.2 includes so-called first-, second- and third-generation peace-building cases. Doyle and Sambanis identified three generational paradigms of UN peacebuilding. First-generation peacekeeping, as identified in Chapter VI of the United Nations Charter, calls for the interposition of a peacekeeping force after a truce has been reached. Second-generation operations, more ambitiously, rely on the consent of parties, whilst the more recent third-generation operations, even more ambitiously, operate with UN Chapter VII mandates where a comprehensive agreement may not exist. The first generation cases, better described as traditional peacekeeping, were overtaken in the 1990s by second- and third-generation interventions that include more explicit post-conflict peacebuilding components. See Doyle and Sambanis, 2006.

[14] For more on conflict-sensitive development policy see: Anderson, 1999; Gaigals and Leonhard, 2001; and International Alert, 2006.

[15] Suhrke et al., 2006.

[16] Since the mid-1990s, units focusing on 'peace-building', 'conflict-prevention', 'post-conflict', and more recently 'stabilization and reconstruction' have been created by USAID, the UK Foreign and Commonwealth Office, the Governments of Sweden (SIDA), Norway (NORAD) and Canada (CIDA), as well as the World Bank. One example is the Post-Conflict Reconstruction Unit of the UK Foreign and Commonwealth Office. Development agencies are also now firmly integrated into 'whole of government approaches' to conflict prevention and peacebuilding. For more on this see Barnett et al., 2007 and Patrick and Brown, 2007.

[17] For a comparative examination of these programmes, see Barnett et al., 2007.

[18] For a discussion of this evolution see Lewarne and Snelbecker, 2004.

[19] In a sense, the conflicts in Liberia, Sierra Leone, Guinea-Bissau and even Côte d'Ivoire were part of the same regional insecurity.