

CRISIS PREVENTION AND RECOVERY REPORT 2008  
Executive Summary



Post-Conflict Economic Recovery  
**Enabling Local Ingenuity**



UNITED NATIONS DEVELOPMENT PROGRAMME

BUREAU FOR CRISIS PREVENTION AND RECOVERY

# Executive Summary

## Post-Conflict Economic Recovery: Enabling Local Ingenuity

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Human suffering is the most tragic consequence of conflict. There is no way to reclaim the senseless loss of lives. Yet for those who survive the violence, economic recovery is the lifeline to a sound, stable future. It is essential not only to reverse and transform the adverse conditions caused by conflict, but also to reduce the risk of its recurrence. This is critical to recovery efforts, as countries emerging from war are susceptible to future outbreaks of hostilities. Post-conflict recovery activities must therefore be conflict-sensitive – they should not aggravate the risk of a return to violence.

The recurrent theme of the report is that context is fundamental; the drivers, characteristics and consequences of the conflict shape the path of recovery. Policies and programmes must be designed and tailored to the specific character of the physical and social destruction caused by conflict.

The ultimate aim of post-conflict recovery is to re-establish the conditions for self-sustaining economic growth and human development. This includes addressing group inequalities and gender inequities that may have caused or exacerbated hostilities in the first place. Recovery is likely to be more sustainable if it is broad-based and grounded in the full understanding of the capacities of the local population and its institutions as they are after the conflict.

This report demonstrates how countries emerging from violent conflict may rebuild shattered foundations and promote inclusive growth by emphasizing three critical themes. First, it recognizes that indigenous drivers are critical to recovery. This notion, which is central to the report, captures the efforts of the local communities and enterprises to stimulate economic activity after war. Efforts of the communities to rebuild their livelihoods constitute the most viable platform on which to base post-war recovery efforts and international support. Second, the report examines the macroeconomic policies that post-conflict countries can deploy in pursuit of recovery; and finally, it analyzes the role the state should play in the economic recovery process.

### **Indigenous drivers:**

While the immense loss of life is the most tragic consequence of war, the economic, political and social casualties are also severe. State capacity is often weakened to the point that it can no longer provide even the most basic services. Physical capital and infrastructure have been destroyed. Conditions on the ground often lead to economic degradation, capital flight, and diminished livelihoods and employment opportunities. Death, disease and displacement shrink a country's stock of skills, competencies and aptitudes, thus undermining the prospects for economic recovery. Reversing the damage and investing in people and communities is therefore an important aspect of post-conflict economic recovery. In the process, it is essential to address the inequities in these systems that may have contributed to conflict dynamics in the first place.

War also causes significant changes in the structure of the economy. Economies do not collapse entirely during conflict, but they evolve. These shifts in economic activity reflect the changes in struc-

ture and incentives that the conflict has brought about. Some wartime activities are directly related to the conflict itself – such as the production and trade in arms. More importantly, a host of alternative livelihoods and new production ventures flourish because the war situation demands exceptional creativity to survive and local actors have responded accordingly. When hostilities cease, such creativity becomes the spearhead for economic regeneration.

Local actors are the best placed and have the strongest incentive to rehabilitate themselves after war. Post-conflict recovery policies that harness and build on these local activities are more likely to be successful and self-sustaining than those that offer an imported solution. International development assistance must therefore be designed to support and complement ongoing indigenous efforts, as well as to lay the foundation for further locally grown initiatives.

### **Macroeconomic policies:**

Minimizing the risk of conflict recurrence is a central concern for macroeconomic policy and broader economic recovery. Recognizing this imperative, the macroeconomic and fiscal policy regime should focus on jumpstarting the economy and generating jobs, paying special attention to the impact of these policies on inequalities among groups and regions. It is particularly important in post-conflict settings that growth be inclusive and broad-based and that it does not aggravate social tensions.

The report highlights the importance of a gradual and sequential approach to reforms. High priority must be given to restoring institutions and mechanisms for macroeconomic and fiscal management that will support later stages of the recovery process. Particular emphasis must also be placed on creating employment and fostering investment opportunities. Successful economic recovery requires that policies be cumulatively self-reinforcing.

External support and official development assistance (ODA) can provide much-needed breathing space in the early stage of the recovery process, particularly through deeper and earlier debt relief. ODA must be used, however, in ways that respond to the specific needs and conditions of the receiving country. It must support its indigenous drivers and not set up parallel systems.

### **The state as agent of recovery:**

After conflict, the recovery and rehabilitation of the state itself is a priority, particularly because a functioning state is essential for peace consolidation. The key governance and institutional needs that are critical both to economic recovery and peace consolidation include: restoring effective government control over public finances; reconstituting mechanisms for oversight and accountability; recreating a professional public administration and rebuilding representative and inclusive political mechanisms and institutions.

Conflict often undermines the legitimacy and functioning of the state, and the post-conflict leadership must work to re-establish legitimacy by including all major stakeholders in social and economic processes. The ultimate measure of an effective state is the establishment of a social contract between the government and its citizens. A state that fails to incorporate all major groups in its governance faces a strong risk of conflict recurrence. The new state must also assert its effectiveness by restoring its capacity to administer social, political and economic processes and the ability to enforce individual and community security. Indeed, a continuing absence of security seriously undermines recovery and economic development.

## Summary of key conclusions of the report:

- All recovery programmes should be context-appropriate and based on a full assessment of the particular circumstances of the country;
- Conflict never leaves a *tabula rasa*. Local economic drivers often flourish and many local institutions and modes of social interaction survive. Post-conflict recovery efforts must understand, build on, and work with the social and institutional dynamics as they are on the ground;
- Successful post-conflict recovery requires not only sustained economic growth, but also a pattern of growth that reduces the risk of conflict recurrence. As such, growth must be accompanied by employment expansion and must address horizontal inequalities where they are severe;
- Macroeconomic policies must give priority to minimizing conflict risk, even as they promote growth. This may, for instance, mean initially tolerating moderate inflation and budget deficits. Critically, recovery efforts must promote policies that will attract private sector investment as well as the return of skilled manpower;
- Aid can be very important for recovery, especially in the early stages. But the management of aid must be subject to the logic of indigenous drivers and should avoid becoming a vehicle to promote parallel systems. Aid must also take distributional consequence into account;
- A strong and inclusive state is essential for securing stability and recovery. The post-conflict country must quickly rebuild state institutions, including the capacity to collect revenue and to spend it effectively. Improved transparency is especially important in natural resource rich countries where there is much potential for rent seeking behavior.



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