CRISIS PREVENTION AND RECOVERY REPORT 2008

Post-Conflict Economic Recovery

Enabling Local Ingenuity

UNITED NATIONS DEVELOPMENT PROGRAMME

BUREAU FOR CRISIS PREVENTION AND RECOVERY

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Foreword

Since the end of the Cold War, around 100 violent conflicts have come to an end across the world. Although this is the result largely of the internal efforts of individual countries, it is also due to the dramatic increase in support from the international community. Still, for far too many countries, the war-to-peace transition continues to be fragile and reversible.

The challenges faced by post-conflict countries are more serious in several respects than those faced by poor but peaceful developing countries. They include severely weakened state capacity, destroyed physical, human and social capital, distorted economic incentives, widespread poverty and massive unemployment. Some also have to cope with criminal networks that plunder their resources, and former warlords who resist relinquishing power. These conditions place war-torn countries at continuing risk of relapsing into violent conflict.

The economic policy priorities for countries in post-conflict recovery should take these differences into account. They should include minimizing the risk of conflict recurrence and restoring confidence in social, political and economic institutions. Towards this end, according to the findings reviewed in the report, it is important to enhance the ability of the state to provide security for households and communities, including economic security, by enforcing the rule of law and delivering essential social services. At the same time, economic recovery priorities must focus on employment, encourage productive investment, mitigate business risks and reduce group inequalities.

These are significant challenges requiring assistance from the international community. This is why the United Nations (UN) system places such great emphasis on supporting different facets of conflict prevention and recovery and peacebuilding efforts in so many countries. Integral to this agenda is the United Nations Development Programme's (UNDP) work, together with UN and other development partners, on supporting countries in the aftermath of conflicts through activities such as helping to restore livelihoods, shelter and government capacities.

Building on UNDP's work and experience in this area, this report argues that post-conflict recovery strategy and policy should be anchored in the local engines of economic recovery. Many institutions, modes of interaction and economic activities adapt to and survive conflict. This report provides ideas for how post-conflict countries can build on their existing capacities to assume primary responsibility for their own recovery.

Regarding the international community, the report recognizes its fundamental role in supporting post-conflict recovery, but maintains that national actors must take the lead. Through this lens the report examines how the legacies of conflict might be dealt with at household and community, macroeconomic policy and state levels.

Through its analysis of how the international community can best work together with and in support of post-conflict countries, we hope that this report provides valuable ideas on how we can further improve on our collective record of preventing relapse into conflict and laying the foundations for lasting peace and sustainable development.

Kemal Derviş
Administrator
United Nations Development Programme

Preface

UNDP promotes development worldwide, including in the most vulnerable societies and in countries facing extremely challenging conditions. Countries damaged by disaster and armed conflict are precisely those where the failures of development have already undermined social resilience, institutional capacity and effective governance.

The Bureau for Crisis Prevention and Recovery (BCPR) works around the world to restore the quality of life for men, women and children who have been devastated by natural disaster or violent conflict. Carving stability out of chaos, BCPR continuously seeks new ways to prevent conflicts and the destruction they cause. Promoting economic recovery is critical to conflict prevention. Setting the stage for a broad-based recovery that benefits all citizens without favouritism or discrimination can bring forth gradual, peaceful development and avoid years of destructive conflict.

Our experience in more than 100 countries has taught us that those that suffer the most from violence or natural disaster are the countries that have failed to develop effective governance, strong institutions, widespread employment opportunities, and basic services and security for citizens. Yet with UNDP support, many countries recovering from crisis have made significant progress along the road to development. Our goal is not only to help them recover quicker and better, but to ensure that recovery efforts are crisis-sensitive, promote gender equality, and reflect the realities on the ground.

An important part of the work of UNDP is to consolidate knowledge and experience in key development areas, including crisis prevention and recovery. BCPR promotes learning about these two themes among UNDP partners within and beyond the United Nations family. We are pleased to introduce the report entitled *Post-Conflict Economic Recovery: Enabling Local Ingenuity,* the first in a series of reports on crisis prevention and recovery. It seeks to deepen our understanding of the pivotal role that economic recovery plays in consolidating peace in the fragile aftermath of violent conflict, and reaffirms the critical importance of fostering national capacities and promoting indigenous processes.

Given the urgency of protecting lives and livelihoods and the high human costs of failure, we hope that this report will offer the broad peacebuilding community a better understanding of the challenges of post-conflict development, as well as opportunities to "build back better".

Kathleen Cravero
Assistant Administrator and Director
Bureau for Crisis Prevention and Recovery

UNDP Disclaimer:

The analyses and policy recommendations of this report do not necessarily reflect the views of the United Nations Development Programme, its Executive Board or its Member States. The report is an independent publication commissioned by UNDP. It is the culmination of a collaborative effort by a team of consultants and advisers and BCPR staff. John Ohiorhenuan, Senior Deputy Director of the Bureau for Crisis Prevention and Recovery, led the effort.

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Contributors

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Any errors of commission and omission are the sole responsibility of the authors.

John F. E. Ohiorhenuan
Director
Conflict Prevention and Recovery Report 2008

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Acronyms and Abbreviations

AfDB	African Development Bank
ASOFERWA	Associations de Solidarité des Femmes Rwandaises
BCPR	Bureau for Crisis Prevention and Recovery
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
CBMES	Community Based Monitoring and Evaluation System
CBO	Community-based organizations
CIDA	Canadian International Development Agency
COHRE	Centre on Housing Rights and Evictions
CPIA	Country Performance and Institutional Assessment (World Bank)
CSDG	Conflict Security and Development Group
DAI	Development Alternatives, Inc.
DBS	Direct budget support
DDR	Demobilization, disarmament and reintegration
DDRR	Demobilization, disarmament, rehabilitation and reintegration
DFID	Department for International Development (UK)
EBLS	Equipment-based labour-supported
EC	European Commission
EITI	Extractive Industries Transparency Initiative
EPCA	Emergency Post-Conflict Assistance
ERP	European Recovery Programme (Marshall Plan)
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GEMAP	Governance and Economic Management Assistance Program
GICHD	Geneva International Centre for Humanitarian Demining
GNI	Gross national income
GSM	Global Systems for Mobile Communications
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
HDI	Human development index
HIPC	Heavily indebted poor countries
ICBL	International Campaign to Ban Landmines
ICC	Interim care centres
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IDP	Internally displaced person
IFAD	International Fund for Agricultural Development
IFI	International financial institution
ILO	International Labour Organization
IMF	International Monetary Fund
INEE	Interagency Network on Education in Emergencies
IRIN	Integrated Regional Information Networks
KFW	Kreditanstalt für Wiederaufbau (Credit Institution for Reconstruction)
LBES	Labour-based equipment-supported
LDC	Least Developed Country
LICUS	Low Income Countries Under Stress (now the Fragile and Conflict Affected Countries) Program
LIP	Local Initiatives Project
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative

MDRP	Multi-Country Demobilization and Reintegration Programme
MDTF	Multi-donor trust fund
MFA	Multi-Fibre Arrangement
MIGA	Multilateral Investment Guarantee Agency (World Bank)
MISFA	Microfinance Investment Support Facility for Afghanistan
MIX	Microfinance Information Exchange
NGO	Non-governmental organization
NORAD	Norwegian Agency for Development Cooperation
NPV	Net present value
NRA	National Resistance Army (Uganda)
NRM	National Resistance Movement (Uganda)
ODA	Official development assistance
OECD	Organization for Economic Co-operation and Development
PAR	Projet d'appui à la réhabilitation
PCNA	Post-conflict needs assessment
PGRF	Poverty reduction and growth facility
PPI	Public–private infrastructure
PPP	Public–private partnership
PRI	Political risk insurance
PRIO	International Peace Research Institute, Oslo
PRS	Poverty reduction strategy
RENAMO	Mozambique National Resistance
RER	Real exchange rate
ROSC	Reports on the Observance of Standards and Codes
RUF	Revolutionary United Front
SDR	Special Drawing Rights
SES	Senior Executive Service (Liberia)
SGR	Strong Growth Recovery
SIDA	Swedish International Development Cooperation Agency
SRA	Semi-autonomous revenue authority
TSS	Transitional subsistence support
UCDP	Uppsala Conflict Data Program
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNAMSIL	United Nations Mission in Sierra Leone
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDPKO	United Nations Department for Peacekeeping Operations
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UNPBC	United Nations Peacebuilding Commission
UNPBF	United Nations Peacebuilding Fund
UNSC	United Nations Security Council
USAID	United States Agency for International Development
WDI	World Development Indicators
WEO	World Economic Outlook
WFP	World Food Programme
WGR	Weak Growth Recovery
WHO	World Health Organization
WILPF	Women's International League for Peace and Freedom
WWI	First World War
WWII	Second World War

Overview

New office building alongside a building waiting for restoration as part of the 1.8 million square meter reconstruction project for Beirut's central district, Beirut, Lebanon, July 2004
(George Georgiou/Panos Pictures)

The challenges of post-conflict economic recovery

Armed conflict terrorizes and kills large numbers of people. In the Democratic Republic of the Congo, nearly a decade of violence in the 1990s led to over five million deaths, due directly to conflict-related casualties, as well as to disease and malnutrition exacerbated by conflict.[1] In a few short years, civil war in Côte d'Ivoire displaced 750,000 people internally and triggered refugee outflows of half a million people.[2] And of course, genocidal slaughter in Rwanda and Bosnia provide particularly tragic examples of the extreme human toll of violence and war.

The economic and political consequences of violent conflict are enormous as well. The legacy of conflict includes substantial loss of livelihoods, employment and incomes, debilitated infrastructure, collapse of state institutions and rule of law, continuing insecurity and fractured social networks. After a quarter of a century of protracted conflict, Afghanistan stands as one of the most impoverished, conflict-prone states in the world, and ranks near the bottom of all human development indicators.[3] The Fund for Peace recently ranked the country in its *Failed State Index* as the seventh weakest state in the world.[4]

Recent research indicates, however, that the number of armed conflicts globally—those that erupted either during or after the end of the Cold War in 1989—are in decline.[5] There are now about 35 countries that can be described as having entered a post-conflict phase since then. Many of these are low-income countries where conflict has made the already difficult challenges of promoting development much more complex. Economic recovery is essential for reversing and transforming these adverse conditions, and to reduce the risk of a reversion to violence.

This report is about how countries can rebuild the foundations and establish the conditions for self-sustaining, inclusive growth in the immediate aftermath of violent conflict. It asks three basic questions:

- What kinds of policies are needed to get the development process restarted?
- What must the national authorities strive for and what actions must they take?
- How can the international community be most helpful?

The report focuses on economic recovery because a sound economy is a fundamental requirement for human development, and because, in the post-conflict context, broad-based economic recovery is critical for avoiding the recurrence of violence.

This report examines the challenges of recovery from three angles. First, it looks at indigenous drivers of economic recovery. How best can the capacities and institutions that have survived a conflict be nurtured and reinforced? How can the efforts and initiatives of households, communities and enterprises be strengthened as they strive to rebuild their lives at the end of a conflict? Indigenous drivers provide the most viable platform on which to base post-war recovery efforts and international support. Policies that harness and build on social processes and interactions on the ground, and on local capacities, are more likely to be successful and self-sustaining.

Second, the report examines the macroeconomic policies that post-conflict countries can deploy in pursuit of recovery. When war ends, countries face serious macroeconomic problems including massive unemployment, moderate to high inflation, chronic fiscal deficits, high levels of external and domestic debt and low domestic revenues. Successful economic recovery subsequently involves the challenging tasks of steering a course that manages inflation whilst attaining respectable growth, makes the best use of aid, builds a conducive environment for private investment and attains reasonable fiscal autonomy. Fortunately, there is extensive experience to draw on from many countries that have negotiated post-conflict recovery.

Third, the report analyses the role of the state in the economic recovery process. After war, 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.

Dynamics of post-conflict economies

Defining ‘post-conflict’ is not a straightforward task. In some situations, conflicts recur after a short period of peace. In other cases, some violence continues even when conflict has ostensibly ended. There is often no easy ‘before’ and ‘after’. This report characterizes post-conflict countries according to their progress along a range of ‘peace-building milestones’. A post-conflict country should be seen as lying somewhere along a continuum on each of these milestones, recognizing that it could sometimes move backwards. As long as a country does not slip back on too many of these milestones at once, it can reasonably be expected to continue towards recovery. The following are the most important peace-building milestones:

- ceasing hostilities and violence;
- signing of peace agreements;
- demobilization, disarmament and reintegration;
- return of refugees and internally displaced persons (IDPs);
- establishing the foundations for a functioning state;
- initiating reconciliation and societal integration; and
- commencing economic recovery.

Using this approach, most of the countries whose conflicts ended after the Cold War come within a broadly accepted core set of post-conflict countries. The analysis in this report focuses on these countries.[6]

The most tragic consequence of conflict is, of course, the immense loss of lives. In addition, violent conflict invariably generates widespread destruction and degradation of physical capital and infrastructure; reduced levels of human capital due to deaths, disease and displacement; capital flight and the collapse of economic growth; loss of jobs, employment opportunities and livelihoods; weakened institutions; and a decline of social capital, particularly the ‘bridging’ type of networks that reach across ethnic or communal divides. State capacity is generally weakened with the result that the state can no longer finance basic services or infrastructure.

War also causes significant changes in the structure of the economy. In particular, it leads to a substantial increase in subsistence agriculture and informal activities as people who have lost formal employment opportunities struggle to survive through informal production and exchange. Illicit activities also typically expand as conflict reduces the state's power to regulate, and increases opportunities for drug production and trade, smuggling and theft. To be clear, therefore, the economy never disappears altogether, even during the most pervasive and long-lasting conflicts. Some normal economic activities remain, but there are also shifts in economic activity reflecting the changes in structure and incentives that accompany conflict. Some of the new activities are directly related to conflict, such as the production of and trade in arms. Others flourish because the war situation permits them, such as brigandage, smuggling and drug production and trade.

A recurrent theme throughout this report is the importance of context. While some general trends and common characteristics of post-conflict economies can be discerned, there is a high degree of variation across countries. The length, scope and intensity of conflict, the terms of the peace and the level of development achieved prior to conflict all affect the situation on the ground, and the prospects for recovery. Some countries emerge from war with a reserve of economic assets, human capital, functioning institutions and a formal economy that still works. Others do not, and face larger hurdles to both sustainable peace and economic recovery. Policy and programme regimes must be designed and tailored to each case and circumstance.

Countries recovering from war remain susceptible to the recurrence of conflict. Historical evidence suggests that there will be a recurrence in one quarter to one half of these countries. Post-conflict recovery activities must therefore be conflict-sensitive: they should not aggravate the risk of return to violence. Indeed, they should actively evaluate the distributional impacts of programmes and policies—including impacts on horizontal inequalities—to ensure that tensions are not inadvertently aggravated.

Nurturing indigenous drivers

Recovery is a process of socioeconomic transformation and not the mere restoration of past structures and dynamics, or a simple return to pre-war levels and trends. As such, recovery is multidimensional and takes time. War results *from* as well as *in* socioeconomic and political imbalances. Such imbalances are major factors in the outbreak of conflict in the first place and high risk factors in the recurrence of conflict. Hence, the extent to which a country is 'recovering' from war must be determined in the light of progress in these areas.

The ultimate aim is to establish the conditions for self-sustaining economic growth and human development while addressing the major risk factors for conflict recurrence. Gender equity must be a key concern in the recovery phase, to recognize the different contributions that men and women make to economic and sociopolitical life, and to ensure, as a moral imperative, equal access to opportunities irrespective of gender.

Post-conflict recovery policy must begin with a robust understanding of the indigenous drivers of recovery. People who live in post-conflict settings do not, in general, wait passively for external agents to finance and direct their activities. Rather, they take charge of their lives with determination and show hard work and ingenuity in resuming or developing new economic activities. Recovery is likely to be more sustainable if it is grounded in the full understanding of these social dynamics and institutional processes, and if it fosters local capacities and initiatives.

Placing local actors and resources at the centre of recovery efforts should not, however, undervalue the crucial role of external assistance. In most cases, local efforts alone are not likely to be sufficient, given the magnitude of needs and the capacities available on the ground, and the various obstacles and challenges that obstruct their full development. There is, undoubtedly, a major financial and technical support role for external partners in working with, building on, and enhancing the efforts of people and their communities and institutions. The message is that external partners and agents must recognize and work with indigenous drivers, harnessing and building on social processes and interactions on the ground.

Some of the major challenges that people and countries face in the aftermath of war include reconstructing social and economic infrastructures, generating employment and livelihoods, reintegrating ex-combatants, reconstituting institutions and social capital, and mobilizing financing for recovery. The overarching message is to recognize that minimizing the risk of conflict recurrence is a critical priority in recovery efforts, and to do this requires understanding of the factors that may have contributed to the conflict.

The following are among the key requirements for nurturing indigenous drivers:

- National actors must take the lead in the recovery process. The best support for post-conflict countries is to work with them to have this capability in place in the shortest possible time.
- Using the logic of recovery alongside conflict risk minimization, basic services provided to ex-combatants should be extended to the host communities, and training programmes should be designed not only for ex-combatants but also for the large number of civilian unemployed youth. Massive public works interventions may be needed to jump-start employment creation.
- In restoring livelihoods, start by building on what is left after the conflict: for instance, by salvaging partially damaged crops and by providing seeds and tools for the rapid initiation of the next crop cycle, and by restoring or replacing damaged livelihood inputs (fishing nets, canoes, etc.).
- Draw on pre-war structures and practices (where they were not a source of tension) to re-establish local consultative mechanisms to anchor the rebuilding of local capacity, particularly for policy and planning design and implementation. Avoid capture of these processes by people who still have more of a stake in war than in peace.
- Avoid excessive reliance on parallel mechanisms to deliver development assistance. Instead, carefully weigh the costs of routing assistance through the state against the benefits of building the state's capacity to manage and deliver services to its citizens. Invest in local resources, procure supplies locally and enhance the capacity of the private sector.
- Microfinance and remittances play crucial reinforcing roles in economic recovery. Microfinance can fund self-employment and ease the financial constraints on poorer households; but its limited potential to generate jobs means it cannot be the anchor for economic recovery overall. Remittances are an important source of support to households, particularly for financing education and health. They should be actively encouraged by reductions in transactions costs and by linking them directly to development activities.
- Multi-donor trust funds (MDTFs), and similar pooled funding mechanisms, are an important vehicle to give post-conflict leadership the breathing space to re-establish local consultative mechanisms and anchor the rebuilding of local capacity.

Macroeconomic policy design and management

Analysis of the macroeconomic conduct and performance of countries in recovery indicates that economic recovery is incremental and that policy sequencing is vital. Recognizing the imperative of reducing conflict risk, macroeconomic policy regimes should focus first on jump-starting the economy and on fostering private investment. Other considerations, such as bringing down inflation or raising domestic revenue, are probably better addressed as second-order priorities. More complex reforms, particularly in the domains of financial liberalization and privatization, risk backfiring if the appropriate regulatory regime is not in place. Reforms should be introduced in a way that is compatible with the domestic political economy realities in each country. Specifically, the evidence confirms the importance of commitment and credibility. Successful recovery requires the leadership of governments and domestic political elites that are serious about economic reform and consolidating peace.

Growth alone does not define economic recovery, but it is a necessary component. Dividing countries recovering from conflict since 1989 into two groups according to their growth performance helps highlight the dynamics of post-conflict economic recovery. Not surprisingly, this exercise shows that growth matters. A return to steady and respectable growth is essential for sustainable economic recovery, the generation of badly needed jobs and the restoration of investor confidence. It is particularly important in post-conflict settings that growth be inclusive, broad-based and conflict sensitive.

The following are among the key requirements for good post-conflict macroeconomic performance:

- Successful growth recovery requires a gradual and sequential approach to reforms. The sequencing of reforms strengthens the reformers in government and builds the political will and institutional capacity to design and implement more difficult reforms later on. Such a gradual approach also allows post-conflict authorities to build the self-confidence and general goodwill that can then be deployed for more complex reforms.
- Recovering economies need to be particularly creative in soliciting the return of private investment. A robust risk-sharing facility can help bridge the gap between the private and social returns that characterize post-conflict situations. The considerable social returns include signaling that peace has been reestablished, which may crowd in additional investment. They also include the significant conflict risk reduction effect from the employment being generated.
- Countries in post-conflict recovery must re-establish monetary and exchange rate management regimes as soon as possible. They need a central bank that is substantially autonomous and immune to political pressures. Good exchange rate management is essential in post-conflict countries for restoring and maintaining trade competitiveness.
- Financing recovery and creating employment are the priorities of fiscal policy. Another key concern in the immediate aftermath of conflict should be to start rebuilding the capacity of fiscal institutions as quickly as possible. Public expenditures can be recovery enabling if they effectively address horizontal inequalities, promote inclusive growth and generate employment.
- To regain the confidence of the population and rebuild trust after years of uncertainty and violence requires the provision of jobs and basic social services for individuals and households. For communities and local government that means revenue sharing, institutional

strengthening and relative fiscal autonomy; while for business it means political stability, clearly articulated economic policies and a commitment to rebuilding investment-enabling institutions. Restoring public services is an excellent start to rebuilding the social contract.

- Aid can be effective and important to post-conflict economic recovery. Managed well, aid does not undermine growth or competitiveness. Indeed it may be an important factor in sustained and high levels of growth. This requires external partners to make early and predictable disbursements of aid, and faster and deeper debt relief. It requires the governments of recovering countries to use the early dividends and space provided by official development assistance (ODA) to restore and reform the institutional capacities and policy-making process.

The role of the state

This report examines three of the core requirements of a functioning state—legitimacy, authority and effectiveness—in the context of recovery from conflict. Conflict undermines the legitimacy of the state, and the post-conflict leadership must work to re-establish legitimacy by including all major stakeholders in social and economic processes. In particular, it must strive to bridge inequalities between different groups. Similarly, it needs to rebuild its authority by re-establishing a social contract and regaining the ability to introduce and implement the required policy regime. Further, new states must assert their effectiveness by restoring their capacity to administer social, political and economic processes and to enforce individual and community security.

Among the key considerations in the role of the state in economic recovery are the following:

- A continuing absence of security will seriously undermine recovery and economic development. Providing security to all citizens and promoting the rule of law are top priorities for post-conflict recovery.
- Restoring state legitimacy in post-conflict states goes beyond transitional elections. It is imperative to restore representative institutions that foster an inclusive political process, particularly to mitigate the risks of conflict recurrence posed by political exclusion and continuing socioeconomic and inter-group inequalities.
- The ultimate measure of an authoritative, legitimate and effective state is one that has established a 'social contract' entailing the reciprocation between the state's provision of security, justice and economic opportunity and citizens' acceptance of the authority of the state.
- Priorities for ensuring sustainability of the state include building core capacities and particularly an effective civil service. Almost as soon as hostilities end, strenuous efforts are needed in training and retraining civil servants and public sector managers, and in improving incentives to attract returnees to the service.
- Restoring fiscal capacity means strengthening local revenue mobilization capacity, and controlling corruption and rent seeking, especially in states with abundant natural resources.
- Recovery efforts must work with and from the political, institutional and resource endowments actually available on the ground. These may include informal institutions and forms of governance that lie outside the generally accepted model of the developed countries.

Summary of key conclusions

Post-conflict countries differ from each other in important respects, including the level of income, the damage done by war, the nature of the peace and the resource base. Policies need to take these differences into account.

- The first requirement is that all recovery programmes should be context appropriate and based on a full assessment of the particular circumstances of the country.

- Second, conflict never leaves a *tabula rasa*—a 'clean slate'. Local economic drivers often flourish and many local institutions and modes of social interaction survive during conflict. Post-conflict recovery efforts must understand, build on and work with the social and institutional dynamics as they are on the ground.

- Third, successful post-conflict recovery requires not only sustained economic growth, but also a pattern of growth that is likely to reduce the risk of conflict recurring. As such, growth must be accompanied by employment expansion and must address horizontal inequalities.

- Fourth, macroeconomic policies must give priority to minimizing conflict risk, even as they promote growth. This may mean tolerating moderate inflation and budget deficits. Critically, recovery efforts must also promote policies that attract private sector investment as well as the return of skilled workers.

- Fifth, aid can be very important for recovery, especially in the early stages. But the management of aid must be subject to the logic on promoting and using indigenous drivers and should never be a vehicle to promote parallel systems.

- Sixth, a strong and inclusive state is essential for securing stability and recovery. Post-conflict countries need to rebuild state capacity quickly, including the capacity to generate revenue and to spend it effectively. Improved transparency is especially important in natural resource-rich countries where there is much potential for rent seeking.

Overview notes

[1] Estimates based on five surveys sponsored by the International Rescue Committee (IRC) measuring mortality rates between 1998 and 2007. For more information, see IRC, 2008.

[2] UNHCR, 2007.

[3] UNDP, 2007a.

[4] Fund for Peace, 2008.

[5] Human Security Center, 2008.

[6] See Chapter 1 for this list of post-conflict countries.

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 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.[1] 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'.[2] 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",[3] we also recognize the need for special creativity in policy design, sequencing and implementation.

> 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.

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.

> Initiating post-conflict recovery is complicated by the fact that the state often has little revenue to pay for even such basic expenditures as civil servants' salaries.

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 growth and employment rates. 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.[4] 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".[5] 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.[6]

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".[7] 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".[8] 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 foundations 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.[9] 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

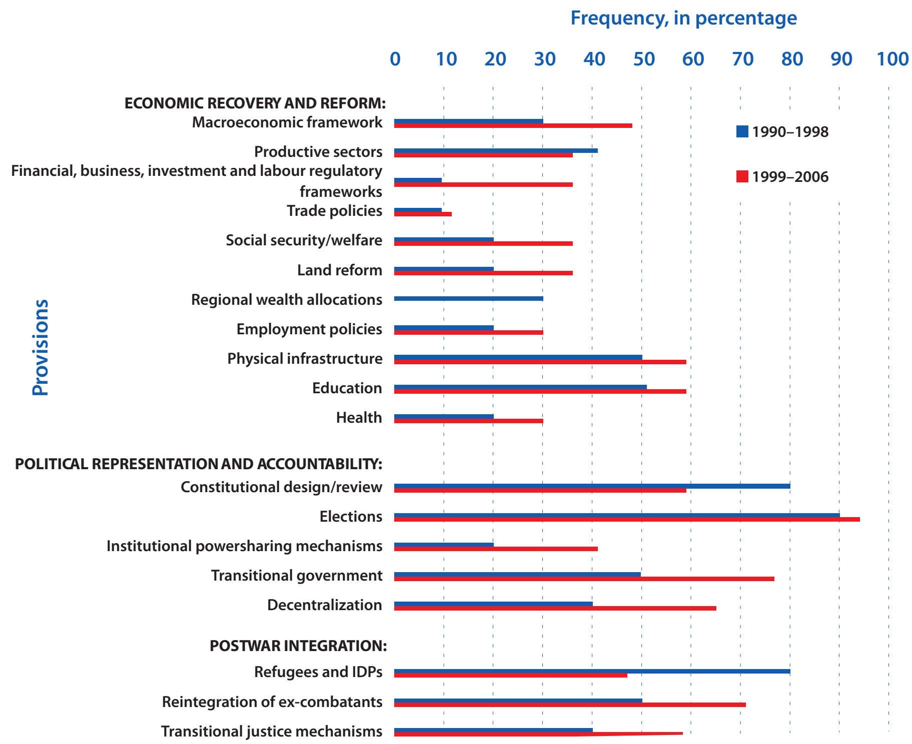
Major episodes of violent conflict inflict great suffering on people and cause considerable damage to the economy, as described in Chapter 2. Thus the most obvious reason post-conflict economic recovery is important is to reverse some of this destruction, to generate incomes and to improve social services 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

Figure 1.1 **Provisions in recent peace agreements**



Source: UNDP and Christian Michelsen Institute, 2006.

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]

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.

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

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]

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 diversity 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] 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.

[2] 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.

[3] UNDP, 2005a.

[4] Flores and Nooruddin, 2007.

[5] Mendelson-Forman, 2002.

[6] Addison, 2003.

[7] World Bank, 1998.

[8] UNDP, 2005a.

[9] 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.

[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.

The Legacies of Armed Conflict

A boy saves books from the rubble of his home, a six story apartment building which was bombed by the Israeli air force, Tyre (Sur), Lebanon, July 2006 (Jeroen Oerlemans /Panos Pictures)

2.1 Introduction

The legacies of contemporary armed conflict are devastating: death, disease, destruction, population displacement, economic dislocation, human and capital flight, massive impoverishment and social breakdown. The diversion of resources from production to destruction incurs a double economic loss: one due to loss of labour and investment, and the other from the damage inflicted on production facilities, infrastructure, societal networks and communal relations. The severe negative consequences of armed conflicts push these countries further off track towards achieving the Millennium Development Goals by 2015.[1]

Not all post-conflict countries have experienced total devastation, however. While countries such as Afghanistan, the Democratic Republic of the Congo, Liberia, Sierra Leone and Somalia have seen their states collapse as a result of conflict, others such as Croatia, Guatemala and Sri Lanka have survived with their political systems, administrative capacities and economies largely intact. Moreover, even for those countries that do suffer extensive economic and institutional destruction, what remains is not a *tabula rasa*. Wars do not destroy economic life altogether. Typically, the severe developmental damage that violent conflict inflicts on the formal sector shifts economic activity to the informal sector. As several studies have made clear, these 'war economies' are dynamic and complex.[2] They reshape, but do not eliminate, patterns of accumulation, exchange and distribution. Moreover, the patterns of violent predation and criminalized economic exchange that thrive during the anarchy of war do not disappear when conflict ends, but continue to pose serious and distinctive challenges to post-conflict recovery. From this perspective, although post-conflict contexts may provide a window of opportunity for transformative institutional and policy reforms, these legacies determine just how open that window actually is.[3] If post-conflict development strategies are to have any chance of succeeding, policy makers and the international community must ensure that their recovery strategies not only build on the institutional remnants, but also take into account these relatively new dimensions of indigenous dynamics.

This chapter proceeds as follows. In the following section we discuss the importance of avoiding conflict recurrence, and review the main factors that make post-conflict countries particularly vulnerable in this respect, first by considering how the nature of wars and peace agreements affect the likelihood of conflict recurring and second by reviewing the root economic causes of conflict as a source of renewed hostilities. Next, we look at the main economic legacies of war and the characteristics of post-conflict countries that set the context for post-conflict policies. We then consider the extent to which post-conflict countries and 'normal' developing countries face different development challenges and implementation environments. In the light of the general legacy of conflict and the discussion of factors associated with recurrence, we conclude by identifying major objectives that should inform post-conflict policy formulation.

2.2 Conflict recurrence

A major obstacle to economic recovery and development in post-conflict countries is conflict recurrence. At some stage, many conflict countries pass through episodes that turn out to be only a temporary cessation of violence and hostilities.[4] Angola, Burundi, the Democratic Republic of the Congo, Indonesia, Liberia, Rwanda, Sierra Leone and Sri Lanka, among others, have all experienced renewed violence after the conflicting parties signed comprehensive ceasefire or peace agreements.

Although it is generally agreed that post-conflict countries face a higher risk of experiencing (renewed) armed conflict than non-conflict countries, there is considerable variation in the estimated rate of conflict recurrence. An influential World Bank study in 2002 estimated that conflict countries on average had a 50 percent risk of experiencing renewed conflict within five years of the original conflict ending.[5] However, a recent World Bank study estimated that the risk of conflict recurrence was significantly lower, with conflict countries having a 23 percent risk of returning to war within four years.[6] The variation in the estimates of the risk of conflict recurrence arises because different studies use different datasets or different methodologies. This is a common problem facing all quantitative studies of armed conflict, whether their objective is to understand the likelihood of conflit onset, the probability of recurrence, as well as the duration or costs.

Whether the risk of confict recurrence is 25 percent, 50 percent or something in between, it is nonetheless typically higher than that of conflict onset. In an effort to help policy makers design more effective interventions in post-conflict situations, a growing body of research has sought to identify factors that contribute to increasing the risk of conflict recurring. In general, if the underlying or root causes of a conflict are insufficiently addressed in the post-conflict phase, a recurrence of violence becomes more likely. Other relevant factors include the nature of the conflict and its impact on both the state and the country's political economy.

The characteristics of a conflict, such as its duration, the number of casualties and the way in which it ended, appear to affect the risk of it starting up again. Empirical evidence indicates that the longer the original conflict lasted, the more likely the peace will endure.[7] One explanation for this finding is the 'war weariness effect' on combatants and the population at large.[8] Another explanation is that conflict parties are able to gather more accurate information about the military strength and capabilities of their opponents when conflicts last longer. The reduced uncertainty about the existing balance of power can subsequently help bring about a more stable and viable peace.[9] But the observed inverse relation between conflict duration and conflict recurrence is tempered by the finding that a higher number of casualties—which is itself correlated with the length of the conflict—appears to increase the risk of recurrence, arguably because this hardens animosity and undermines trust between opposing parties and their supporters, making cooperation in the post-conflict era much more difficult.[10]

The way in which an armed conflict comes to an end also appears to affect the risk of recurrence. Armed conflicts end in three main ways: by outright military victory of one party, by a negotiated ceasefire or peace agreement, or just by burning out. Several early studies concluded that decisive military victories lead to more stable post-conflict environments than when armed conflicts end by negotiations.[11] One study found that the risk of conflict recurrence dropped by 70–90 percent when there was an outright victory.[12] In contrast, "indecisive military outcomes leave all sides capable of resuming the fight, and no one fully satisfied with the terms of the peace".[13] Another study concluded that when violence was based on struggles between competing identity groups, only 21 percent of the civil wars that ended in a military victory were followed by renewed violence at a later stage, compared to 67 percent of those that ended at the negotiating table.[14]

The main reason suggested to explain these findings is that the losing side's organizational and institutional structures are severely impaired or even completely destroyed, making it more difficult for them to take up arms again.[15] Moreover, by controlling the monopoly of physical force, the victors are in a good position to repel a renewed uprising. Explanations have varied for why armed conflicts that were ended through negotiated agreements appear more likely to be renewed. They include that parties to a conflict may only have signed a peace agreement in order to rearm and reorganize their forces, enabling them to restart the violent conflict at a later stage;[16] that negotiated settlements may create power struggles, which can undermine the effectiveness of post-conflict governments;[17] and that negotiated settlements are "likely to result in veto groups that will not surrender power for social change whose impact on them is uncertain".[18]

However, by our own analysis of conflicts that have ended since 1989, those that ended in peace agreements have a considerably lower rate of recurrence (14 percent) than the overall rate of 47 percent. Conflicts that ended in outright victory for one side had a recurrence rate of 45 percent, and all of those with an ambiguous ending recurred.[19] This is consistent with other findings which show that peace accords supported by the United Nations and generous development assistance produce better outcomes than military victories alone.[20] The difference from earlier conflicts may be due to the greater presence of international peacekeeping forces in post-conflict situations that have ended with peace agreements in the years since 1989. Since the end of the Cold War an increasing number of conflicts have been resolved through negotiations rather than by outright victory by one side,[21] while at the same time there have been more international peacekeeping interventions, with a four-fold increase in the number of United Nations peacekeeping missions between 1987 and 1999.[22] Multinational peace operations can provide strong incentives for conflict parties to cooperate with one another and abide by the terms of a peace agreement by raising the costs of defection and obstruction of the peace process. Moreover, the involvement of third parties can help mitigate post-conflict security dilemmas by providing credible guarantees of stability and disarmament.[23]

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Empirical evidence demonstrates that international peacekeeping interventions have helped war-torn countries achieve greater stability. One study examining all conflicts from 1945 onwards found that the risk of their renewal dropped by 32 percent when United Nations peacekeepers intervened.[24] United Nations peacekeeping missions appear to be particularly effective in preventing the resumption of hostilities in the first few years after conflict.[25]

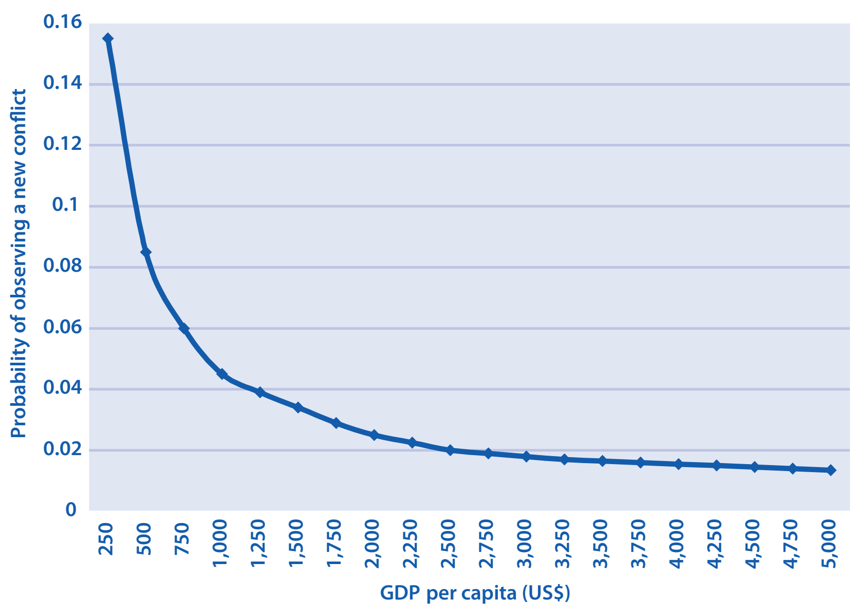
2.3 Economic factors that heighten the risk of conflict recurrence

Research has established a number of factors that generally raise the risk of conflict in developing countries. Post-conflict countries are subject to these same risks, and the fact that they have suffered conflict suggests that they are especially exposed and vulnerable to them. These risk factors include low per capita income, weak economic growth, the presence of socioeconomic horizontal inequalities and abundant high-value natural resources. These risk factors are even more acute in the presence of high unemployment, especially among youth.[26] If the risk factors are not, or are insufficiently, addressed in the post-conflict period, they may contribute to a resumption of violence.

Low income

Lower levels of GDP per capita are correlated with a higher risk of armed conflict (Figure 2.1).[27] Being a poor country is statistically significantly correlated with most forms of violence, except terrorism.[28] Due to lower rebel recruitment costs, it is argued that rebellions are more feasible in low-income countries and are thus more likely to occur there, regardless of individual and group motives. Low rebel recruitment costs not only make conflicts more likely but also increase the risk that conflicts will resume once they have ended.[29] Moreover, governments in low-income countries generally have fewer resources with which to suppress conflict. Wealthier countries, on the other hand, not only have higher rebel recruitment costs but are also better able to protect their assets because they can raise larger amounts of state revenue that allows them to respond more effectively to a violent rebellion, either by pacifying or crushing it.[30] Accordingly, low-income post-conflict countries such as the Democratic Republic of the Congo, Liberia and Sierra Leone are at considerably greater risk than middle-income post-conflict countries such as Bosnia and Herzegovina and Georgia.

Figure 2.1 **GDP per capita and estimated risks of conflict onset**



Note: The graph is based on data and a model from Collier and Hoeffler, 2002, pp. 13–28. Humphreys and Varshney, "use[d] the Collier-Hoeffler (2002) model to predict the expected probability of civil war onset conditional upon different income levels ranging from US$250 to US$5,000. To make these predictions [they held] all other variables constant at their means".

Source: Humphreys and Varshney, 2004, p. 9, footnote 5.

Poor economic performance

Economic growth in post-conflict countries reduces the risk of renewed armed conflict, as it does the risk of conflict onset.[31] One study found that the growth rate in conflict countries in the five years prior to conflict, including cases of conflict recurrence, was on average only 0.5 percent—far lower than the average of 2 percent in countries that remained peaceful.[32]

Growth rates vary greatly across post-conflict countries. Some have rapid growth whereas others languish. It has been estimated that post-conflict countries whose growth rate remains stagnant over a 10-year period following a civil war have a high risk (over 40 percent) of conflict recurring. If the growth rate averages 10 percent over the same period, the risk of renewed armed conflict is reduced to 25 percent.[33]

One explanation for the positive correlation between economic growth and the reduced risk of conflict onset and recurrence is that growth stimulates job creation, which reduces grievances and makes armed conflict less attractive to would-be rebels. Moreover, the legitimacy of post-conflict governments is closely tied to a country's economic performance. Where economic recovery is strong and governments are able to deliver essential services, they generally enjoy greater popular support. The capacity of post-conflict governments to generate economic growth, however, is clearly constrained by the degree of conflict-related destruction (among other things). Compelling evidence indicates that countries that have experienced less destructive armed conflicts usually have greater post-conflict economic growth. On the other hand, countries emerging from very long and destructive civil wars sometimes register negative growth rates for up to six years after the end of war, making them particularly susceptible to conflict recurring.[34]

Socioeconomic horizontal inequalities

In recent years, socioeconomic horizontal inequalities—i.e. inequalities between culturally defined groups—have become increasingly recognized as major causes of violent conflicts. Inequalities are defined in terms of uneven economic opportunities, unequal access to land and natural resources, and group-specific differences in standards of living, along with other basic socioeconomic indicators.[35] Such inequalities can cause feelings of frustration and discontent that sometimes provoke violent group mobilization and conflict along ethnic, religious, or regional lines.[36] The correlation between horizontal inequalities and conflict risk contrasts with the relationship between vertical inequalities and conflict—i.e. inequalities among individuals or households. In the latter case, the evidence is quite mixed.[37]

Socioeconomic inequalities between different regions, ethnic or religious groups often result from such factors as the differential impact of colonial and post-colonial economic policies, regional climatological and ecological differences, and discriminatory political and economic systems that deliberately favour one 'cultural' group over others.[38] Burundi and Rwanda have been mentioned as cases where colonial policy favored of a minority group, leaving behind conditions of sharp inequalities.[39]

The effects of socioeconomic horizontal inequalities on conflict have been shown in numerous case studies and several quantitative country and cross-country studies.[40] For instance, one study covering 35 to 55 developing countries (according to the availability of data) measured social horizontal inequalities by average years of education and economic inequalities by average household assets.[41] The study, covering the period between 1986 and 2003, found a significantly higher probability of conflict onset in countries with severe social and economic horizontal inequalities.[42] Another study used district-level data to explore the impact of horizontal inequalities on conflict between ethnic and religious groups in Indonesia. It found that horizontal inequality in child mortality rates and its change over time were positively (and significantly) associated with the occurrence of ethno-communal violence, after controlling for a number of intervening factors including population size, ethnic diversity and economic development.[43]

Yet another study found, in the context of the Nepalese conflict, a statistically significant association between district-level relative deprivation in terms of human development and the incidence of violent deaths in that district.[44] Sharp horizontal inequalities can contribute to conflict even in the presence of positive economic growth, as seems to have occurred in Rwanda, for example. There is also evidence that socioeconomic horizontal inequalities are more likely to lead to conflict where they are associated with political horizontal inequalities (i.e. inequalities in the ethnic and religious distribution of political opportunities and power, including control over the presidency, the cabinet, parliamentary assemblies, the army, police and regional and local governments).[45]

The risk of renewed conflict posed by socioeconomic horizontal inequalities depends on:

- how inclusive the post-conflict political system is;
- whether or not conflict itself has remedied such inequalities, as in the case of successful ethno-regional secession;
- whether or not previously excluded or marginalized groups or regions have gained more equitable economic and political standing from peace agreements and their implementation;
- whether prior injustices associated with real and perceived discrimination against an aggrieved group are satisfactorily addressed;
- how the dynamics of inter-group relations are affected by the conditions of post-conflict peacebuilding and development.

Those designing post-conflict policies thus need to investigate whether horizontal inequalities were an important cause of conflict and, where they were significant, to include policies to correct such inequalities to prevent them from becoming a source of conflict recurrence.[46] Attention will need to be given, for example, to the distributional impact of macro-recovery programmes, the distribution of aid and public expenditure and the possibility of affirmative action in employment and education.

> Remove the secondary causes that have produced the great convulsions of the world and you will almost always find the principle of inequality at the bottom. Either the poor have attempted to plunder the rich, or the rich to enslave the poor. If, then, a society can ever be founded in which every man shall have something to keep and little to take from others, much will have been done for peace.[47]

Dependence on lucrative natural resources

Violent contestations over natural resource wealth have figured in a number of contemporary civil wars including in Angola, Colombia, the Republic of Congo, Côte d'Ivoire, the Democratic Republic of the Congo, Liberia, Myanmar, Sierra Leone and Sudan.[48] Considerable evidence shows that the presence of lucrative natural resources such as oil, diamonds, gold and tropical timber affects the incidence, and sometimes also the duration, of violent conflict.[49] However, estimates vary as to the extent of the risk associated with a country being rich in natural resources.[50] This may depend on the type of resource, the size of the revenues it generates, its geographical location, the type of conflict and the regulatory and institutional qualities of governance. Current research shows, for example, that primary commodity export dependence per se is not so significant a risk factor as once thought,[51] and that different primary commodities affect the risk of conflict in distinct ways.

Overall, oil- and gas-producing countries are the most vulnerable to the outbreak of civil war. Even though the percentage of oil- or diamond-rich countries experiencing conflict is not markedly different from non-resource-rich countries, the risk of conflict is much higher for a given level of per capita income. Among both low- and middle-income states, oil producers have a higher risk of conflict than non-oil producers—nearly double in the case of low-income countries for the period 1992–2006.[52] Moreover, there has been a decline since the end of the Cold War in the number of civil war outbreaks occurring in non-oil-producing states. Indeed, the growing risk of conflict for oil producers since the end of the Cold War may not be due solely to the greater number of oil producers in the world, but a reflection of a strong link between oil and conflict.

Various explanations have been offered for the connection between lucrative natural resources and civil war.[53] One is that the presence of such resources motivates 'greedy' actors to fight in order to exploit the resources for private gain.[54] Another is that natural resources provide war financing for both government and insurgent forces.[55] And a third reason lies in the perceived inequity of the distribution of resource revenues. The presence of high-value natural resources frequently causes or accentuates horizontal inequalities.[56] For example, where resources are located in a particular region, but their revenues are channelled to other parts of the country, grievances sometimes arise among local inhabitants who may seek autonomy or separation.[57]

Today's high commodity prices and insatiable demand for oil and mineral commodities have pushed natural resource exploration and extraction into countries that are already fragile, poor and with weak governance capacities. These factors are likely to mean that natural resources will continue to pose a significant risk of conflict in the developing world.[58]

To be clear, natural resource wealth can be a great asset for post-conflict recovery, but it does pose particular challenges for regulation and distribution, as will be further discussed in chapter 5. A dependence on natural resource wealth does not doom countries to an eternal recurrence of conflict. Natural resources have been used to productive developmental ends, not just in stable democracies such as Norway, but also in low- and middle-income countries such as Botswana, Chile and Mozambique.

Youth unemployment

The existence of severe unemployment and underemployment, especially among young males, seems to increase the risk of conflict. Several observers have suggested that the risk of instability and violent conflict in developing countries is high because of the demographic composition of the population, notably a large proportion of youth, especially young men.[59] Indeed, according to Urdal, "in countries where youth make up 35 percent of the total adult population, the risk of conflict, with all other factors being equal, increases by 150 percent compared to countries where youth make up only 17 percent of the adult population, as in most developed countries".[60] However, the problem is not the sheer numbers of youth, as this observer seems to imply. Many developing countries, particularly in sub-Saharan Africa, have a preponderance of young people,[61] but most of them have not experienced civil war.

> The lack of economic opportunities due to the underlying socioeconomic and political barriers that young people face raises the risk of violence.

Most research on youth violence demonstrates that so-called 'youth bulges' alone are not what matter. Rather, it is the lack of economic opportunities due to the underlying socioeconomic and political barriers that young people face that raises the risk of violence.[62] Young people, men mostly but women too, are frustrated by their lack of social recognition and by deficient educational and employment opportunities. This leaves them alienated and, in many cases, susceptible to recruitment, whether by rebels or government armies, if only to secure a livelihood.

As post-conflict countries are typically characterized by low economic growth and high unemployment, they are especially vulnerable to renewed fighting if job creation efforts fail. Moreover, potential host countries invariably restrict migration, which could have provided a safety valve. For example, some 62 percent of young people in Bosnia and Herzegovina said they would leave the country if given the opportunity even after a decade of post-war recovery efforts.[63] Some studies have suggested that allowing much freer movement within regional labour markets and into developed countries would help to resolve the youth crisis in Africa and elsewhere.[64] Yet, the furthest most young people can migrate currently is to cities within their own country, where on arrival they find little outlet for their talents and energy, driving some of them towards crime.[65]

Providing occupations for young men returning from conflict is thus an important way of avoiding recurring conflict. This implies the need, among other things, to adopt labour-intensive methods of production where possible, as will be further discussed in Chapter 3.

2.4 The impacts of violent conflict on people, assets, institutions and incentives

The legacy of violent conflict is invariably the widespread destruction and degradation of physical capital and infrastructure; reduced levels of human capital due to deaths, disease and displacement; lost employment opportunities and livelihoods; weakened institutions and a decline of social capital, particularly the 'bridging' type of networks that reach across ethnic or communal divides;[66] growth collapse and capital flight; and changes in the structure of the economy. We will now consider some of these characteristics in more detail.

Damage to physical capital and assets

The destruction of infrastructure such as bridges and roads is often one of the most visible aspects of the damage brought about by armed conflict. A country's physical capital is often seriously damaged because ports, telecommunication and electricity infrastructure, energy plants and other economically important physical facilities are directly targeted by one of the warring parties in order to gain a strategic advantage. Another factor that contributes to the downgrading of a country's physical capital is the lack of spending on infrastructural maintenance by the government during the course of an armed conflict. This is often the result not only of on-going insecurity and violence, but also of a decline in overall government revenues, an increasing share of which is devoted to military spending.[67]

The loss of physical capital may be very substantial and can severely restrict the capacity for economic recovery in the post-conflict period.[68] For instance, during the civil war in Mozambique some 40 percent of immobile capital in the agriculture, communications and administrative sectors was destroyed.[69] Some two-thirds of Timor-Leste's infrastructure was destroyed in the mayhem that followed the 1999 referendum on independence from Indonesia. The destruction of, and damage to, physical capital has an important impact on a country's economic activities and productive capabilities. It also imposes serious hardships on civilian populations through the loss of safe drinking water, sanitation and power systems (Figure 2.3). As a result of Liberia's civil conflict, for example, pipe-borne water remains essentially non-existent (and most modern sanitation services are absent), whereas about 45 percent of the urban population and 23 percent of the rural population enjoyed such access prior to the war.[70]

A particularly important physical asset in the rural-based economies in which the majority of contemporary armed conflicts take place is land. Subsistence farmers and agricultural labourers often lose access to their land as a result of their displacement or of land grabs by warring factions. In the Democratic Republic of the Congo, for example, much land was forcibly occupied, claimed and exploited for minerals by the conflict parties, taking it away from crop and cattle production.[71] The loss of land and its outputs can lead to widespread food insecurity. Large land areas in post-conflict countries are also frequently rendered inaccessible by landmines and other unexploded ordinance.[72] In 2001, Cambodia had more landmines and unexploded ordnance than any other country in the world, with 6,422 villages (46 percent of the total) contaminated.[73] Clearly, in addition to the future human toll from unexploded ordnance, the prospects of economic recovery in post-conflict countries are severely hampered by the detrimental legacy of landmines on agricultural production.

Armed conflicts can also bring about serious environmental damage, both directly and indirectly. Environmental problems include land degradation and deforestation and may affect prospects for long-term peace, food security and sustainable development.[74] Environmental damage is often particularly severe in resource-rich countries. For example, the rapid growth of unregulated mining of valuable coltan deposits underlying arable land in the North and South Kivu regions of the Democratic Republic of the Congo has destabilized hillsides, causing landslides that have destroyed fields.[75] About half of the land seized for unplanned, artisanal mining has become unsuitable for agriculture.[76] Extensive illegal logging in the Democratic Republic of the Congo[77] may have seriously compromised wildlife habitats. The destruction of Liberia's main hydropower plant and smaller power plants has increased the use of charcoal and wood fuel as energy sources, accelerating deforestation and atmospheric pollution.[78]

In Sudan, the country's long history of civil war has damaged the environment through population displacement, weak governance and underinvestment in sustainable development. Agriculture is the most badly-affected sector as it is beset by many forms of land degradation as well as by riverbank erosion, invasive species, pesticide mismanagement in the large irrigation schemes and water pollution. Deforestation is also occurring at a fast rate (more than 0.84 percent a year): between 1990 and 2005, Sudan lost 11.6 percent of its forest cover. Such deforestation is likely to get worse in the coming years because of the expected return of massive numbers of refugees and of IDPs.[79]

Finally, there are losses in the physical assets of the poor, including their houses and livestock. These assets tend to be eroded or destroyed, abandoned following forced migration or expropriated by looting rebel or government forces. In Dili, for example, anti-secessionist pumped petrol into houses and burned them down.[80] In Uganda, a survey among households who fled the violence in the centre of the country during the civil war in the mid-1980s, found that two-thirds of respondents had lost all their assets as a result of the violence as well as the extensive looting by both sides.[81] In Mozambique, the national cattle stock was reduced by almost 80 percent during the course of the conflict: "Cattle were lost because of direct rebel activity, that is rebels stole them to feed their troops and killed them to spread terror, and because of indirect effects of warfare, namely a lack of feed and veterinary attention during the war".[82]

The human costs

Armed conflicts also generally result in the reduction of a country's human capital. While the most direct human capital costs are deaths as a result of war-related violence, battle deaths usually constitute a small proportion of the total number of casualties. As shown in Table 2.1, the shares of actual battle deaths have ranged from under 2 percent to close to 30 percent of total war deaths for conflicts in sub-Saharan Africa.

In many recent conflicts, civilians have been deliberately targeted by armed groups, either to achieve certain strategic or political objectives, such as the creation of an ethnically homogeneous territory, or to deny safe havens to rival combatants, or simply in order to loot civilian homes and other assets.

Table 2.1 **Battle deaths versus total deaths in sub-Saharan Africa**

Country	Years	Estimate of total war deaths	Battle deaths	Battle deaths as a percentage of total war deaths
Sudan (Anya Nya rebellion)	1963–73	250,000–750,000	20,000	3–8%
Nigeria (Biafra rebellion)	1967–70	500,000–2 million	75,000	4–15%
Angola	1975–2002	1.5 million	160,475	11%
Ethiopia (not including Eritrean insurgency)	1976–91	1–2 million	16,000	<2%
Mozambique	1976–92	500,000–1 million	145,400	15–29%
Somalia	1981–96	250,000–350,000	66,750	19–27%
Sudan	1983–2002	2 million	55,000	3%
Liberia	1989–96	150,000–200,000	23,500	12–16%
Democratic Republic of the Congo	1998–2001	2.5 million	145,000	6%

Note: Non-battle deaths are due mainly to war-exacerbated disease and malnutrition.

Source: Lacina and Gleditsch, 2004, cited in Human Security Centre, 2005, p. 128.

Civilians have also fallen victim to the increasingly indiscriminate use of weapons such as landmines. For instance, in Nepal landmines killed 415 people between 2004 and 2006, 57 percent of whom were children.[83] In Afghanistan, landmines and unexploded ordnance killed between 150 and 300 people per month in 2000, half of them children.[84]

Many contemporary armed conflicts result in large numbers of indirect deaths due to famine, disease and lack of health services, such that, "war-exacerbated disease and malnutrition kill far more people than missiles, bombs, and bullets".[85] Famine—resulting from a combination of war reducing the availability of food and sharply changing entitlements as food prices rise and people losing their jobs or other sources of incomes—can account for a massive number of deaths, as illustrated by Ethiopia in the early 1980s.[86] Indirect deaths generally attract less international media attention, except when deaths escalate sharply, as occurred recently in the Darfur region in Sudan.[87] There also tends to be accelerating mortality rates due to the collapse of healthcare systems, and the spread of killer diseases such as HIV/AIDS, malaria, tuberculosis and other infectious diseases.

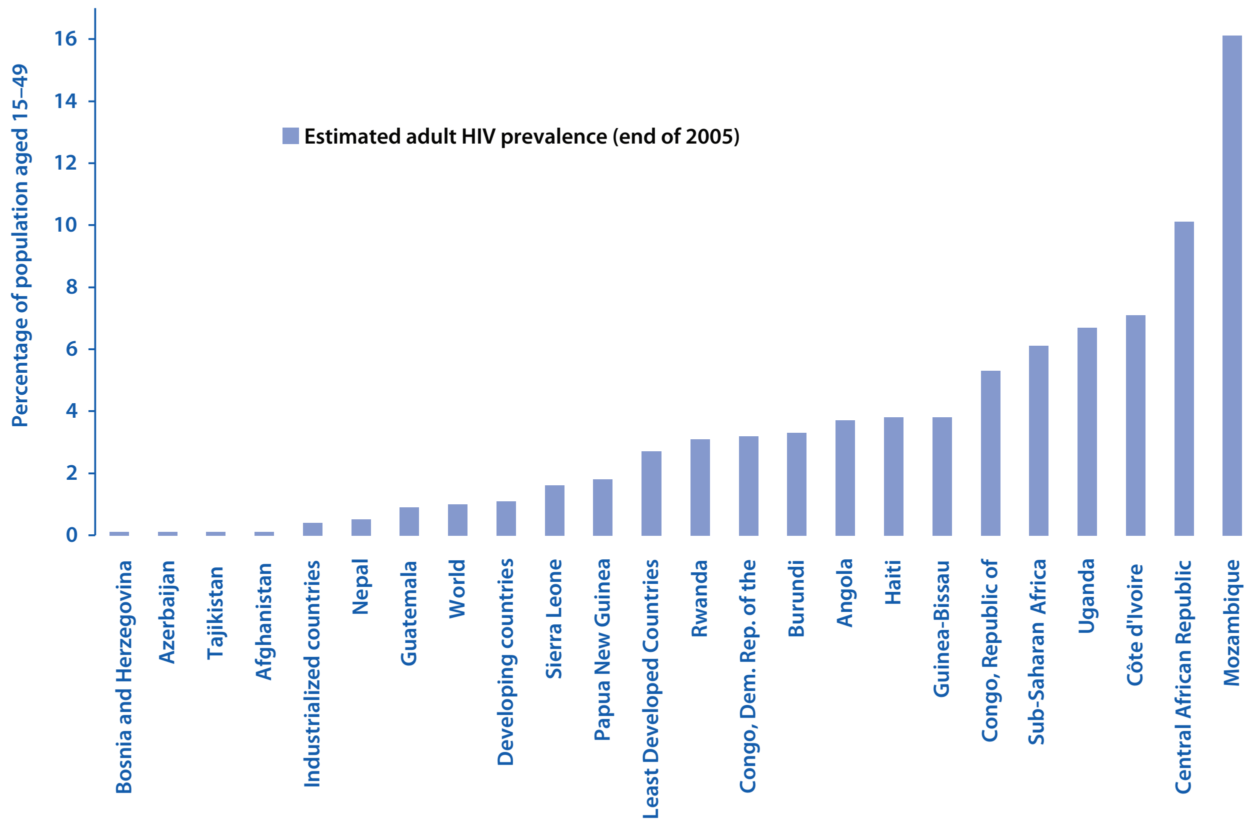
In most of today's armed-conflicts, war-exacerbated disease and malnutrition kill far more people than missiles, bombs, and bullets.

Health

World Health Organization (WHO) data on 23 major diseases indicate that armed conflicts substantially increase the incidence of contagious diseases.[88] Although the interplay between violence and infectious diseases is complex and variable, evidence suggests that the greater the wartime violence and the poorer and more vulnerable the country, the greater the number of people who fall seriously ill or die from these diseases.[89] HIV/AIDS tops the list, affecting both sexes and nearly all age groups.[90] Widespread rape by HIV-positive soldiers during warfare is often a major cause for the rapid spread of the disease. Country data show a high prevalence among a number of conflict-affected countries (Figure 2.2).

Epidemiological research in Uganda, for example, has shown that the initial spread of HIV/AIDS was closely associated with the armed conflict that started in 1979.[91] While it was present in Uganda before the outbreak of the conflict, contagion was sporadic. The continuous rape, promiscuity and dislocation during and after the civil war led to an epidemic. The spread of the virus from south to north Uganda followed the same path as Idi Amin's soldiers after the war in 1979. However, more recent research suggests that the link between civil conflicts and HIV/AIDS is complex and highly

Figure 2.2 **Adult HIV prevalence in selected countries**



Note: 'Developing countries' are all developing countries. 'Least Developed Countries' (LDCs) are a subset of developing countries, recognized as such by the United Nations General Assembly, comprising the 50 countries ranked lowest, according to a set of indicators reflecting income, quality of life and economic vulnerability. See UN-OHRLLS, 2005.

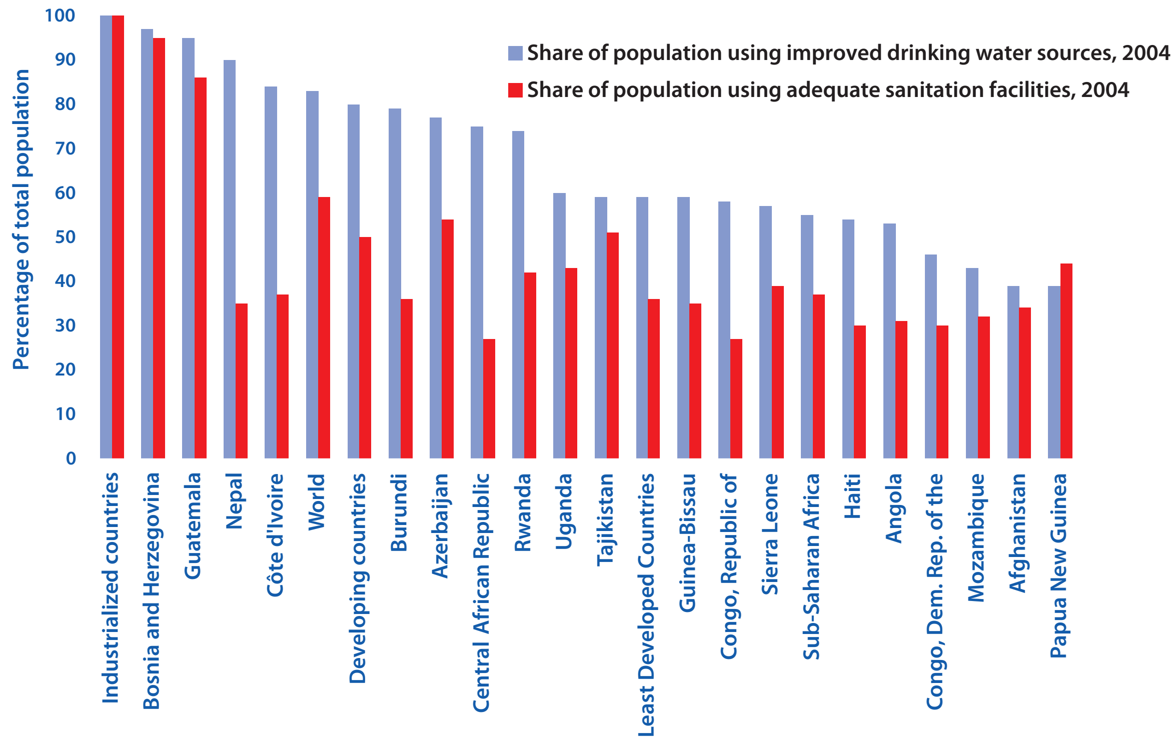
Source: Data from UNICEF, 2008, statistical tables.

context specific. Indeed, in a few cases, the spread of the virus may even have slowed down as a result of armed conflict because of restrictions on movements. Sierra Leone, for example, was insulated from the growing HIV epidemic in West Africa because around 90 percent of its population remained in the country as IDPs.[92] In any event, most experts agree on the importance of HIV-related interventions in post-conflict situations, given the vulnerability of both civilians and soldiers.

Poor access to clean water can contribute to the spread of diseases even years after the end of a conflict (Figure 2.3), significantly impacting the health status of conflict-affected populations. The health of populations in post-conflict environments is also greatly affected by deteriorated health systems. Where state capacity has collapsed or been weakened by war, the health system itself is often a casualty. In its place, in many cases, healthcare ends up being provided informally or by private sector improvization, with mixed results at best.

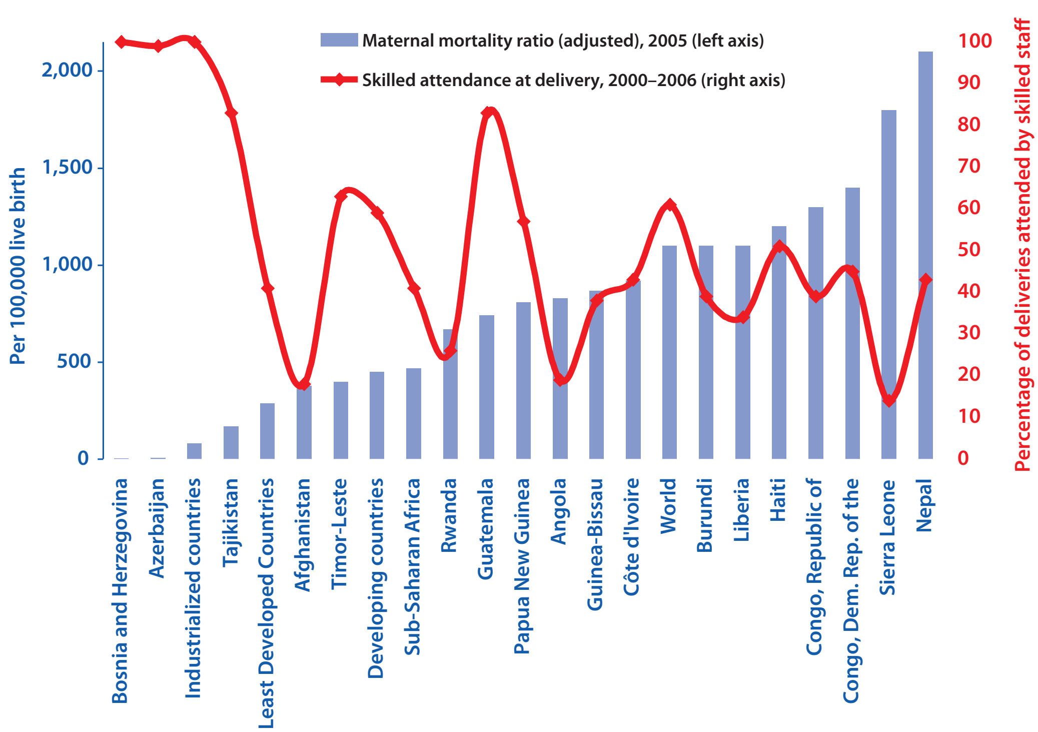
In Mogadishu, Somalia, for example, a profusion of small-scale providers is supplemented by a number of hospitals that charge for treatment.[93] Prices are relatively affordable, with medical consultations costing around US$0.50 per visit.[94] However, this improvized system carries significant risks including the wide circulation of outdated or fake drugs.[95] Similarly, after years of state neglect followed by civil war, the health system in the Democratic Republic of the Congo is completely degraded, and its population suffers from

Figure 2.3 **Access to drinking water and sanitation in selected countries**



Source: Data from UNICEF, 2008, statistical tables.

Figure 2.4 **Maternal mortality ratio and skilled attendance at delivery in selected countries**



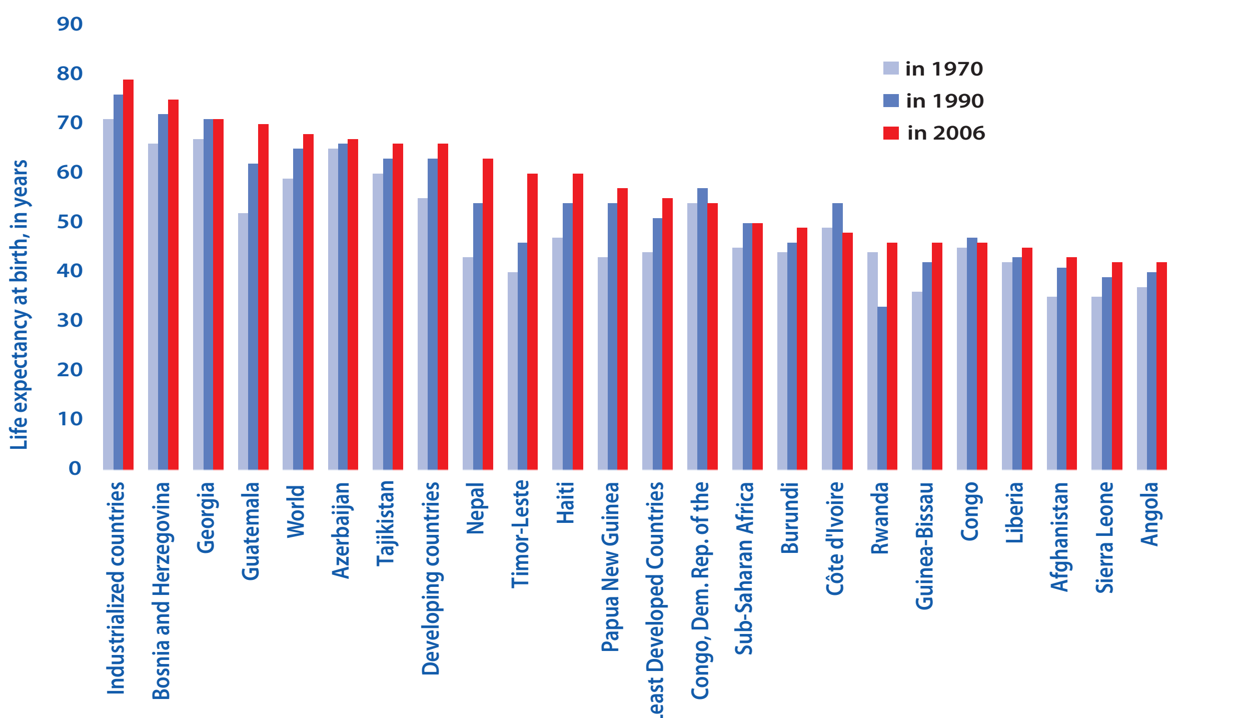
Source: Data from UNICEF, 2008, statistical tables.

numerous preventable diseases including cholera, leprosy, malaria, polio, tuberculosis and typhoid. With many Congolese medical personnel having left the country, medical facilities are severely understaffed. Patients must often provide their own bedding and buy their own medicines, hypodermic needles and sterile gloves, which are sold on the streets outside the facilities. These incredible hardships have fostered considerable resourcefulness (not always positive) on the part of staff and patients. Regarding the hospitals as places of last resort—*lieux de mort* (places of death)—people rely on homemade remedies or drugs sold in makeshift neighbourhood pharmacies that may be counterfeit. Doctors attempting to supplement their meagre wages set up small clinics in their homes without proper equipment and in poor hygienic conditions, endangering the lives of their patients. Hospitals facilitate such moonlighting by introducing reduced working schedules, and such practices contribute to the further decline of the formal system.[96]

Maternal mortality rates in conflict-affected regions tend to be extremely high, often exceeding the average for Least Developed Countries (LDCs), in part as a result of insufficient skilled staff attendance at births (Figure 2.4). Child survival also tends to be adversely affected. One study shows infant mortality rates rising during conflict in 12 countries and decreasing in only four. Infant mortality increased significantly in Mozambique, Somalia and Uganda in the 1980s.[97]

These mortality indicators and the larger socio-economic conditions they reflect explain why conflict-affected countries continue to face very low life expectancy several years after the end of armed violence, even by LDC standards (Figure 2.5). In some cases life expectancy at birth stalled around 45 years (as in Rwanda and Liberia) or even decreased (for example in Côte d'Ivoire, in the Democratic Republic of the Congo and in the Republic of Congo) between 1990 and 2006. In contrast, Figure 2.5 also shows that life expectancy for developing countries as a whole increased from 55 to 65 years (about 20 percent) over the same period.

Figure 2.5 **Life expectancy at birth in selected countries**



Source: Data from UNICEF, 2008, statistical tables.

A further consequence of conflict is poor mental health. Mental illnesses and psychological problems among combatants and civilians due to armed conflict can be extensive, although estimates vary widely. Surveys taken in 2002 in Sierra Leone, for example, found that 15–25 percent of young people had severe symptoms associated with traumatic war exposure, and 5–10 percent of all young people were judged to require mental health interventions or a qualified evaluation.[98] In the 1990s, one-third of refugee children in Central America were categorized as suffering post-traumatic stress disorder, while in Angola the figure was as high as 90 percent.[99] In Bosnia, clinical reports of refugees in treatment show levels of war-related depression of 14–21 percent and post-traumatic stress syndrome symptoms ranging between 18 and 53 percent.[100] A study of Lebanon found that one in four Lebanese had suffered a mental disorder during their lifetime.[101] The active participation of young people in many of today's armed conflicts can leave a harmful socio-psychological legacy.[102]

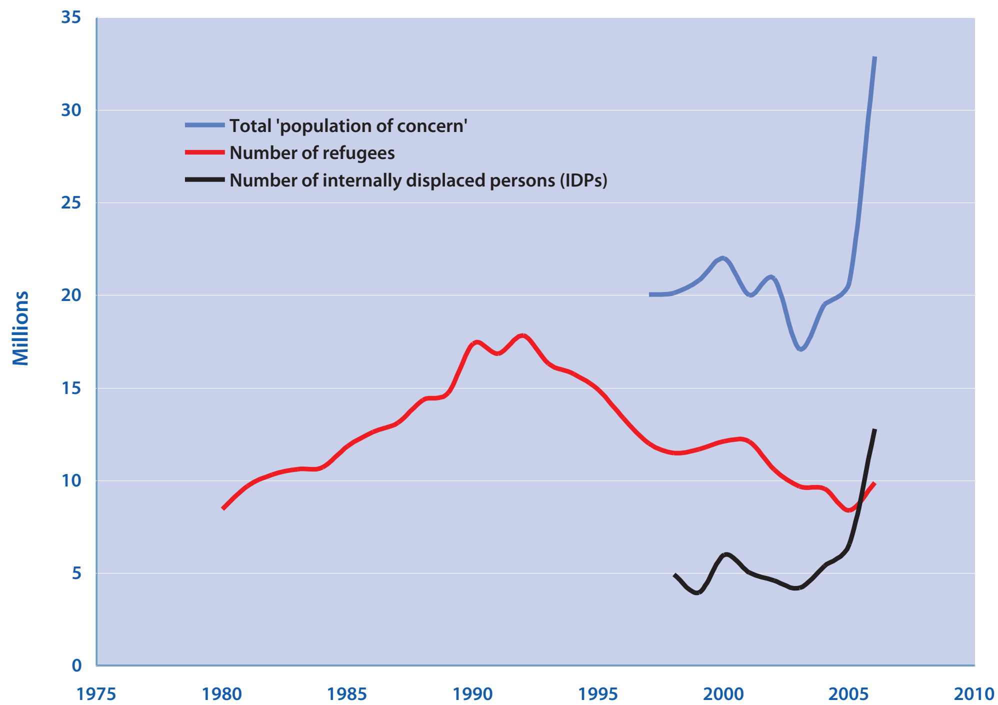
Population displacement

Population displacement is another major human capital cost. Forced migration separates people from their sources of livelihood, cuts off their access to healthcare and education, and heightens their vulnerability to violence and predation. The *2005 Human Security Report* notes that while wars in the 1950s, 1960s and 1970s were associated with high death rates, they did not generate very large flows of displaced people.[103] In contrast, primarily because of the increased targeting of civilians and because of "the displacement of population groups as a motive and weapon of conflict",[104] contemporary armed conflicts usually result in large numbers of displaced persons and refugees. Increasingly, displacement has been internal rather than across borders. Human capital is also lost as a result of the voluntary migration of skilled talent and labour, the so-called 'brain drain'. Entrepreneurs, professionals and intellectuals—key players in any development process—often leave conflict countries both during and after the conflict for better personal security and opportunities abroad. Moreover, people who emigrate during wars, and the diaspora communities they form, often provide a channel for continuing emigration after the end of a conflict.[105]

According to the Office of the United Nations High Commissioner for Refugees (UNHCR), the global number of refugees was about 9.9 million at the end of 2006, and there were about 12 million IDPs (see Figures 2.6 and 2.7).[106] The UNHCR figure for 'persons of concern' (i.e. refugees, asylum seekers, returnees, IDPs and stateless persons) stood at 32.9 million at the end of 2006, 56 percent higher than in 2005. This increase was mainly due to the deterioration of conditions in conflict-affected countries, particularly Colombia, Iraq, Lebanon, Sudan, Sri Lanka and Timor-Leste, and the subsequent increase in IDPs. For instance, in Sri Lanka the protracted armed conflict between the Government and Tamil Tigers escalated dramatically at the beginning of 2006, leading to an additional 300,000 IDPs.[107] In the Darfur region in Sudan, internal displacement has proceeded at an unprecedented pace since 2003, with IDPs currently numbering 1.84 million.[108]

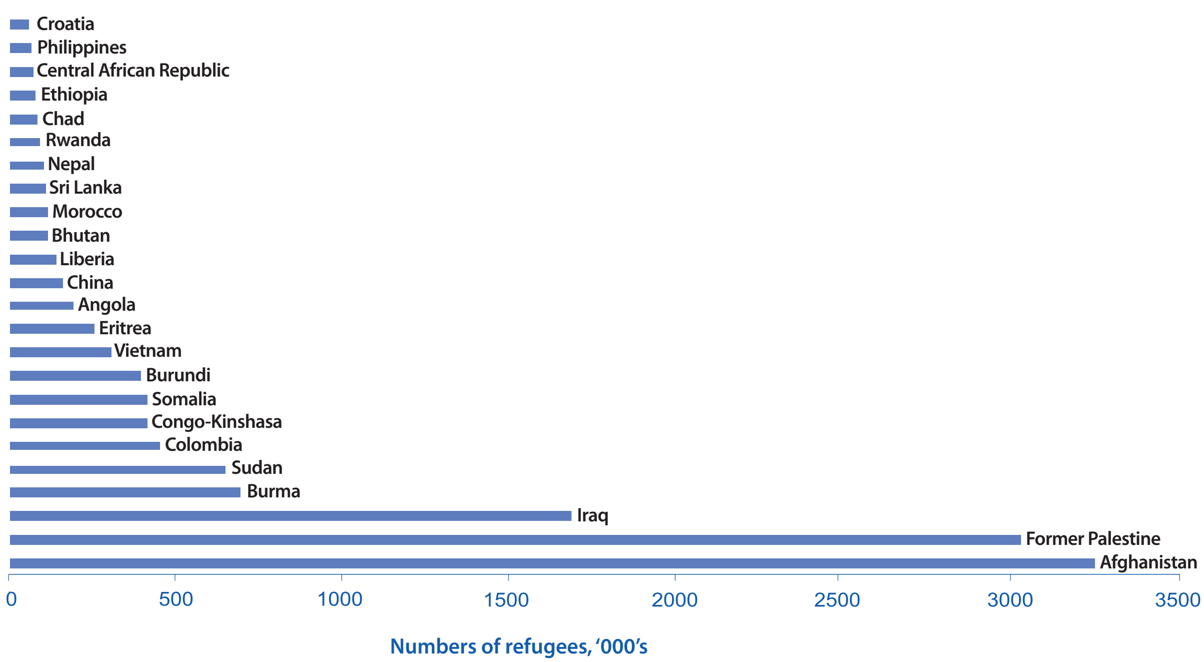
The plight of refugees and IDPs is often compounded by the hostility they face from local 'host' populations. They are frequently blamed for a wide variety of social problems, as, for example, in Pakistan where Afghan refugees were said to "have caused social problems, including an increase in crime, drug addiction and drug trafficking and illegal trade. Local people say that the Afghans take their jobs and drive up real estate prices".[110] However, evidence indicates that foreigners are overwhelmingly the victims rather than the perpetrators of crime.[111] In Johannesburg, for example, 72 percent of migrants and refugees reported that they, or someone they lived with, had been a victim of crime, compared to only 43 percent of South Africans.[112]

Figure 2.6 **Numbers of refugees, IDPs and other 'persons of concern'** [109]



Source: Data drawn from UNHCR, 2007.

Figure 2.7 **Sources of refugees**



Note: that all countries' names are those used in the original source and may therefore differ from official United Nations denominations.

Source: US Committee for Refugees and Immigrants, 2007.

A fisherman in a dugout canoe passes an old rusting shipwreck lying off Greenville Port, Sinoe County, Liberia, September 2005 (Tim A. Hetherington/Panos Pictures)

Education and human capital

Conflict has a negative impact on both the remaining stock of human capital and additions to that capital through the education system. First, it reduces the stock of those with a formal education and productive skills due to injury, death and migration. It may also induce some professional deskilling among combatants, whereby they lose some of their previously acquired professional skills during years spent fighting. Second, it affects the conditions of human capital formation and replacement through reduced access to education and training. One study estimated that half of the 104 million children out of school worldwide live in countries affected by or recovering from conflict.[113]

The destruction of a country's educational infrastructure can be very widespread and often has serious long-term effects on a post-conflict country's economic recovery and development. For instance, during Liberia's 15-year civil war, at least 50 percent of all schools were destroyed,[114] depriving 800,000 children of education.[115] In Timor-Leste, this percentage was even higher with an estimated 95 percent of classrooms destroyed or severely damaged in the violent aftermath of the 1999 referendum on independence.[116] In Kosovo, Bosnia and Herzegovina and Mozambique, respectively, 65, 50 and 45 percent of schools required repair or reconstruction after war.[117] School facilities are often targeted because they are seen as representing the state, but facilities are also expropriated to serve as barracks or storage. Sometimes they are simply looted or occupied by the various fighting factions (and sometimes by IDPs).[118]

The loss of educational personnel during conflict can also be very substantial. In Rwanda, for instance, more than two-thirds of the primary and secondary school teachers were either murdered or fled, while the educational system in Cambodia was almost completely bereft of any trained or experienced teachers at the end of the Khmer Rouge terror regime.[119] In both countries, this has been found to have a lasting negative effect on the educational achievements of affected cohorts, with a particularly sharp impact on secondary education in Cambodia.[120]

Moreover, cutbacks in public educational expenditure lead to deterioration in the quality as well as the quantity of education in conflict countries.[121] A study using United Nations Educational, Scientific and Cultural Organization (UNESCO) education data for conflict countries between 1980 and 1997 shows that educational systems experienced sharp cutbacks in spending during times of war, partly because of a shift in government spending in favour of the military.[122] One study found that states in conflict experienced a 3.1 to 3.6 percent annual decline in spending on education.[123] In Nicaragua, for example, while defence spending as a share of GDP rose from 3.6 percent in 1978 to 18.9 percent in 1989, spending on education fell from 3.8 to 2.5 percent over the same period.[124] However, there have been significant exceptions. In Guatemala, expenditure on education as a percentage of total government expenditure stayed more or less the same during its civil war (about 19.5 percent), while educational expenditure in Burundi increased from 8.6 percent in 1988 to 11.2 percent in 1995.[125]

Enrolment rates often fall during conflict. This is due to destruction of schools and low educational spending, as well as factors such as increased household poverty, displacement, and the death or flight of teachers. Schools are also often closed for safety reasons or occupied by combatants for operational purposes. This was the case, for example, in Angola and Mozambique,[126] where primary schooling enrolment rates fell sharply. In other cases, however, enrolment rates did not drop as much, often because of initiatives improvized by local private actors and communities themselves. In a few cases, such as Guatemala and Nicaragua, primary enrolment actually rose.[127] In Guatemala, as well as in El Salvador, rebel movements supported primary and sometimes secondary schools. In almost all countries communities have been able to continue providing some schooling even in very difficult conditions.[128] In Somalia, mainly through community efforts, the number of private schools increased during the civil war,[129] though enrolment remained low, partly due to the nomadic lifestyle of more than half the Somali population.[130] As a result, while primary school indicators, especially female enrolment ratios, tend to be low during times of conflict, they display significant resilience and seem to rebound fairly quickly afterwards to the levels of poor non-conflict countries (Figure 2.8).

The picture is bleaker at the secondary and tertiary levels, where enrolment rates usually collapse during conflict.[131] The stronger immediate impact of war on higher education may be due to the greater likelihood of those students becoming combatants than their younger peers.

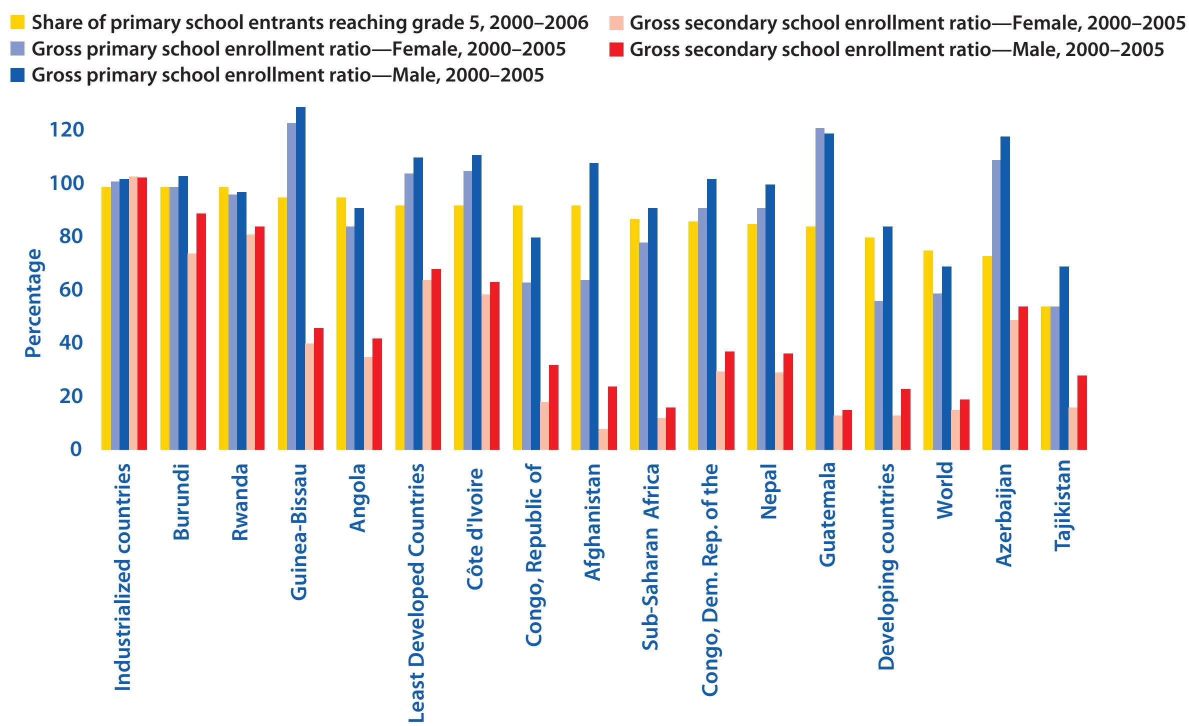
However, "a striking feature of education during conflict is that it almost never comes to a complete standstill for an extended period" and "in almost all cases communities struggle to continue provision of schooling even under the most difficult conditions, using alternative accommodation and flexible or multiple shifts".[132] The relative resilience of education indicators is particularly visible at the primary level, as discussed above. It should also be noted, in terms of human capital, that conflict can generate the opportunity to learn new skills, some of which may be useful in post-war contexts.[133]

Capital flight

Due to macroeconomic uncertainty, rising inflation and depreciating exchange rates, as well as the widespread destruction and looting of private assets, conflict-torn countries are often confronted with extensive capital flight. This depletes a country's financial assets and can hinder investment and thereby undermine long-term growth. Capital flight is difficult to estimate as some data sources show this rising during conflict, while others show a slight decline.[134] However, one estimate suggests that 9 percent of the private wealth of a typical conflict country is held abroad before the outbreak of the conflict and about 20 percent after the war ends.[135] Moreover, some estimates suggest that in the years following the resolution of a conflict, capital flight often increases further—a kind of 'war overhang effect'—because investors adjust their asset portfolios only gradually and are less willing to assume the same risks as they were prior to the outbreak of war.[136] This, in turn, may reflect the fact that once a country has had one civil war, it is seen as likely to experience a relapse, even if peace is achieved. Therefore, risk levels do not return to their pre-war status.[137]

Capital flight in post-conflict African countries has been especially high. For instance, about two-thirds of Uganda's private wealth was estimated to be held abroad in 1986, compared to an estimated 36 percent of total African private wealth.[138] Ultimately, lost capital only returns when policies

Figure 2.8 **Primary and secondary school indicators in selected countries**



Note: The gross primary or secondary school enrolment ratio is the number of children enrolled in a level (primary or secondary) regardless of age, divided by the population of the age group that officially corresponds to the same level. It can therefore be above 100 percent. See UNESCO, 1985.

Source: Data from 2008 statistical tables.

have been improved and economic and political risks reduced.[139] Where the source of capital flight has been the looting of national resources by a corrupt elite, return is highly unlikely. Where the source of capital flight lies in loans contracted during the conflict for purposes of prolonging the conflict, the legitimacy of those debts may well be open to question.[140]

Weakened institutions, state capacity and social capital

During conflict, many state institutions are seriously weakened due to neglect and a lack of funding and as a direct result of the conflict itself. Post-conflict countries are all likely to experience some degree of state failure, with variations from case to case. A failed state, or one with severely eroded capacity, increases the risk of conflict recurring because it is unable to provide essential public services such as education, health, employment and especially security.

The extent to which governing institutions are degraded varies greatly from country to country, however. In relatively localized conflicts in well-established states, such as Colombia, Indonesia and Sri Lanka, or the United Kingdom vis-à-vis Northern Ireland, the state's day-to-day functioning may be hardly affected by conflict. However, at the other extreme are countries where armed conflicts have led to the collapse of the state. In the Democratic Republic of the Congo and Somalia, state institutions were weakened to the point of complete breakdown. In other cases, the state may survive conflict, or a new state may emerge, but without firm control over the entire country. Contemporary Afghanistan is a clear example of this.

The ability of state institutions to provide essential public services to a broad swathe of their populations and to enforce property rights and the rule of law is critical for a properly functioning economy. Without administrative and fiscal capacity—civil service systems, a central bank and public procurement systems, for instance—governments cannot resume delivering essential services, gain political support, attract financing for reconstruction or maintain economic and social stability. In Afghanistan, for example:

> The key economic institutions including the Central Bank, budgeting, accounting, tax collection and customs, statistics, civil service, law and order, and judicial systems had become extremely weak. Even though extensive public administration procedures and regulations existed, most had not been applied for many years. Only a limited number of basic administrative functions continued to be carried out during the years of prolonged conflict; many mid-level and lower-level government employees had left their jobs.[141]

Moreover, civil conflicts can result in a reconfiguration of property rights, especially with respect to land ownership, which can disrupt agricultural investment and output. Instruments of violence, rather than customary or legal title, can become the dominant determinants of land ownership and use. In light of the breakdown of property-related institutions and norms and population displacement, land tenure conflicts—which are often high before war anyway—rise sharply during and after armed conflicts.[142] The loss of property rights can also become a major obstacle to peace. For example, once Mozambique's civil war ended, significant confusion about the resolution of land tenure disputes complicated peace efforts.[143] In Nicaragua, the Contras rearmed themselves during the peace process over misunderstandings about issues of land access. And in El Salvador, the delay in implementing a land transfer programme for ex-combatants (due to donor and government reluctance to finance it) became a major obstacle to peace making and blocked complete demobilization.[144]

The absence or weakness of state capacity gives corruption and criminal activities the room to flourish. Without a reliable judiciary, disputes cannot be resolved promptly and transparently, thus sustaining violence as a means of settling them. Indeed, it is typically the case that post-conflict countries find it extremely challenging to ensure the sustainable revival of the judicial system or to protect it from political intrusion or corruption.[145] The rehabilitation of institutions may be even more urgent than rebuilding physical infrastructure since their effective functioning is critical for restoring minimal confidence, stability and predictability. Without functioning state institutions, any effort to restart and sustain formal economic activity is also likely to fail.[146] This situation is further complicated by the fact that most conflicts also destroy much social cohesion and trust, as well as community-level networks—the essential if informal mechanisms that make productive economic and social exchange possible. The breakdown of trust then widens the scope for opportunistic and criminal behaviour, which undermines the values of honesty, hard work and human dignity. It also brings to the surface, or aggravates, ethnic and religious hatreds and enables those in control to adopt exclusionary policies.[147]

A few post-conflict countries have managed to cope in the absence of a functioning government. Some have adapted wartime organizations to the new demands of peacebuilding, others have made use of traditional systems of authority and allocation, while still others have 'purchased' state capacity to jump-start public administration by contracting services with the private sector or NGOs.

After decades of conflict, for example, Uganda fashioned its post-war governing system from the military organization of the National Revolutionary Movement (NRM). In the Somaliland region, long-established clan networks became the foundation for a participatory and inclusive government that has promoted peace and recovery against incredible odds. More recently, in conflicts such as in Afghanistan, post-conflict governments have hired international firms to provide key services such as procurement, financial management and audit services. These have had limited success, however, owing to their inability to function well in the unpredictable post-conflict environment.[148] Moreover, excessive reliance on imported capacity can undermine the development of domestic capacity by putting off the training and development of domestic human resources. Ultimately, national actors must take the lead in achieving effective political and economic governance—and they must have this capability by the time the involvement of the international community starts winding down.[149]

Where the challenge to state authority is sub-national, the state's capacity to deliver public services and improve the socioeconomic situation of its citizens may not be seriously affected. This has been the case in Sri Lanka where the main theatre of conflict has been in the northern and eastern provinces, as well as in Uganda, which has enjoyed strong economic growth and socioeconomic development despite protracted conflict in the north. Even when post-conflict states are able to deliver public services, some may be unwilling to implement inclusive and remedial policies aimed at addressing the underlying causes of conflict. Indeed, particular post-conflict states that are dominated by certain ethnic and religious groups may seek to preserve their group's privileges and therefore resist the adoption of inclusive policies. The persistence of such political horizontal inequalities is not only a major cause of violent conflict onset,[150] but also increases the risk of conflict recurring if they persist in the post-conflict era.

While studies show that democratization and inclusive politics offer a remedy for repeated cycles of poverty and conflict in the long term, the democratization process may actually increase the risk of conflict recurrence in the fraught conditions of conflict-affected states. This is particularly the case where elections are held before the capacities of the state and civil society to support electoral outcomes are developed. Some studies have shown that countries with political regimes that are an incoherent mix of authoritarian and democratic features (so-called 'anocracies') have a higher risk of conflict starting or recurring than fully fledged democracies or highly autocratic regimes.[151] Autocratic regimes, in fact, are associated with a lower risk of conflict onset and recurrence as they are better able to prevent violent uprisings (often by clamping down on human rights). Clearly, however, such regimes do not provide satisfactory long-term solutions to issues of poverty reduction, sustainable development, good governance and stability.[152] On the other hand, once well established, democracies have a much lower risk of conflict because they provide greater opportunities and access to power for all groups and individuals. This underlines the importance of caution in how fast democratic institutions are introduced, the need to be sensitive to circumstances, and the importance of measures to promote peace, security and development.[153]

2.5 The effects of conflict on economic performance

Conflict almost always affects the rate of growth of a country's economy as a result of the negative effects on it has on physical and human capital, markets, investment and trust (as previously discussed).[154] But economic changes go beyond this, with conflict often transforming economies and bringing about a switch to informal activities, many of which are often illegal.

MAG (Mines Advisory Group) deminers prepare a controlled demolition of cleared landmines and unexploded ordinance, Luena, Moxico Province, Angola, November 2001 (J.B. Russell/Panos Pictures)

Decline in output

The lack of any standardized methodology for calculating the costs of conflict means that estimates across regions or countries tend to vary considerably. It is nonetheless clear that the economic consequences of armed conflict are often dire. A number of studies have attempted to assess the costs of conflict by comparing actual growth with what is likely to have happened in the absence of conflict. A recent Oxfam report estimates the agrregate costs to the 23 African countries that have had a violent conflict between 1990 and 2005—as measured by the loss of GDP growth—to be US$284 billion (or, on average, US$18 billion per year over the period).[155] Collier and Hoeffler estimated the cost of "the typical civil war in a low-income country" to be about US$54 billion.[156] In an earlier study of civil wars during 1960–1992, Collier had estimated that each year in conflict took an average 2.2 percent toll on the affected country's potential GDP.[157] Other studies have come to similar conclusions on the estimated impact of armed conflict on GDP.[158] One found that the GDP per capita of 14 countries affected by civil war between the 1960s and the mid-1990s had declined on average by 3.3 percent annually during war.[159]

Contemporary armed conflicts (post-1990) differ from pre-1990 conflicts in certain respects. They tend to be of shorter duration, and the opposing parties to the conflict are less likely to be supported by external military players. Also, the pace and depth of economic contraction during post-1990 conflicts have tended to be much greater: One study estimated that pre-1990 conflicts resulted in an average 1.7 percentage point reduction in real GDP growth below normal over the whole conflict period, while the average reduction during post-1990 conflicts was 12.3 percentage points.[160] However, perhaps because of the deeper economic contractions caused by contemporary armed conflicts, or the greater amount of post-conflict aid, several of these economies seem to have experienced larger growth rebounds once conflicts ended than did earlier post-conflict episodes.[161]

It is also important to recognize that the 'growth impact' of conflict differs substantially country to country, depending in part on the proportion of the population actually fighting or being threatened, the duration and geographical spread of the conflict, and the extent to which the central government has collapsed. For instance, where armed conflicts are concentrated in peripheral areas, such as with Uganda's northern insurgency, the economic engine of the country may be largely unaffected. However, where armed conflicts spread throughout a country's territory, as in Afghanistan, Cambodia and Mozambique, they usually inflict immense economic damage. Further, where armed conflicts are relatively short, and where their intensity is low, the destruction in terms of human lives and physical infrastructure tends to be much less than in cases where widespread and intense fighting has continued for long periods of time.[162] The economic impact of armed conflicts is also heavily dependent on how the war is fought. For instance, the use of mines has a very large and widespread negative impact in an agrarian-based society, not only on food and possibly export production but also on the economy as a whole. It also depends on such factors as the international reactions to the conflict in terms of financial flows and trade policies. Trade embargoes may have a particularly negative impact on countries dependent on trade, such as oil-exporting countries that import most food items.[163]

A deteriorated macroeconomic environment lies behind many of the adverse changes in conflict countries. As will be discussed in Chapter 4, these include reduced taxation receipts and high budget deficits; accelarating inflation; rises in current account deficits as import restraints fail to match the fall in exports; and debt build up, some of which are due to arms purchases and capital flight during the conflict.[164]

Additionally, and perhaps more crucially, the pre- and post-conflict developmental challenges that countries face are usually very different. Armed conflicts not only result in a reversal of 'normal' development, but also put post-conflict countries on a new and typically more problematic economic path. The World Bank calls these negative social and economic consequences of armed conflicts "development in reverse".[165]

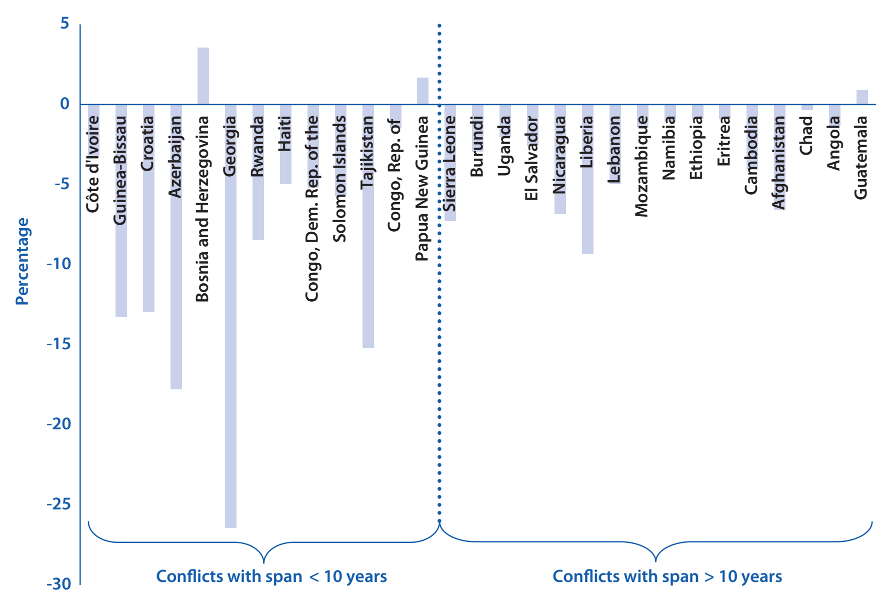
Figures 2.9 and 2.10 show the impact of conflict on GDP per capita in selected post-conflict countries.[166] There are significant differences in the reduction in GDP per capita between conflict-affected countries, but the effect is typically largely negative. The overall effect of a conflict on a country's GDP per capita is a function of its average in-conflict growth rate and of the duration of its conflict. In-conflict GDP per capita growth was strongly negative in Afghanistan, Azerbaijan, Croatia, Georgia, Guinea-Bissau, Liberia, Nicaragua, Rwanda, Sierra Leone, Solomon Islands, and Tajikistan. In Angola, Chad, Mozambique and Uganda, the average annual decline in GDP per capita was more modest at below 2 percent. A few countries have experienced positive growth over their conflict periods, with Bosnia and Herzegovina, Guatemala and Papua New Guinea having higher levels of GDP per capita at the end of the conflict. Several factors may account for these differences in growth trajectories, including, as noted earlier, the characteristics of the conflict country's economy, the reaction of the international community and the nature of the conflict—notably its geographical scope, intensity and duration.

The relationship between the duration of conflict and growth (and their resulting combined effect on the overall change in GDP per capita) can potentially run both ways. On the one hand, it is possible that the longer the conflict, the greater its cumulative negative impact on growth. On the other hand, it is also possible that longer conflicts result in greater growth resilience, thanks to the evolution of coping and adaptation strategies. The latter effect seems apparent in the sample in Figures 2.9 and 2.10, with longer conflicts appearing to be associated with more resilient in-conflict GDP per capita growth (Figure 2.9).[167] Overall, however, it seems that 'duration' is the key factor driving the total change in GDP per capita during conflict. On average, longer conflicts tend to take a slightly greater toll on GDP per capita than shorter conflicts (Figure 2.10).[168]

Structural changes in the economy

The difficulty many post-conflict countries have achieving a speedy economic recovery after conflict is partly due to their weak pre-conflict developmental state. But it also has much to do with the nature of the economic transformations that have taken place during the violent conflict and how these changes shape post-conflict economic relations. Wartime 'trajectories of accumulation'[169] are the result of frequently violent and "radical changes in the allocation of resources and activities among sectors and institutions, as well as among households and social groups…".[170] An important consequence of these changes is the destruction of a good deal of the formal sector, those economic activities that have legal status and are subject to taxation, regulation and surveillance by local and national political authorities. While rebuilding a post-conflict country's formal economy must be a central focus, it is essential for policy makers to take into account the informal economies that emerge from the rubble of the formal sector.

Figure 2.9 **Average in-conflict GDP per capita growth in selected post-conflict countries**

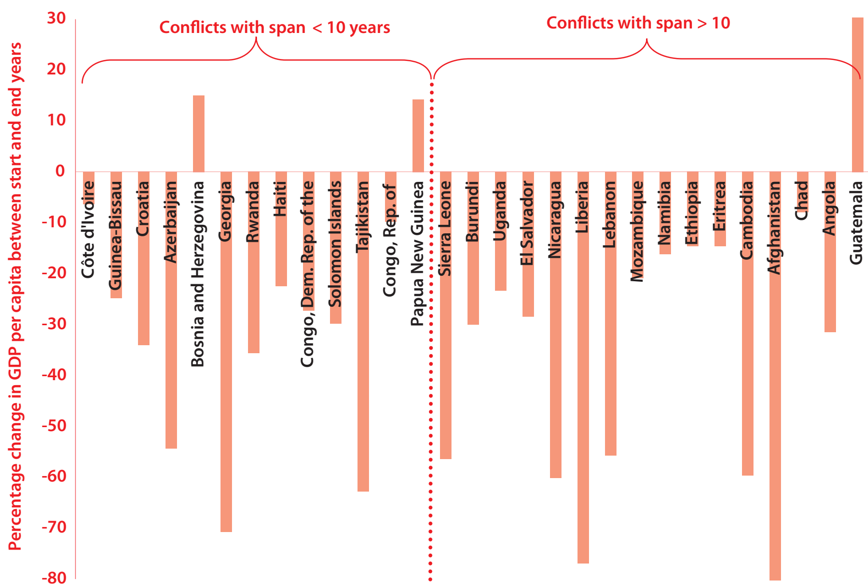


Note: Countries are ranked from left to right; countries with the shortest conflicts are on the left and those with the longest on the right. The conflict periods considered are those during which economic activity is expected to have been most affected on a continuous basis.

Sources: World Bank, 2007a and Heston, Summers and Aten, 2006.

Conflict tends to lead to a substantial rise in informal activities that are outside the purview of government taxation and regulation.[171] Many of these informal activities occur as people who have lost formal employment opportunities struggle to survive through informal production and exchange. Illicit activities also typically expand as conflict reduces the state's power to regulate and increases opportunities for drug production and trade, smuggling and theft. Informality is a pervasive feature of all developing economies, but informal economies in countries coming out of conflict tend to differ in both magnitude and nature from those in more 'normal' economies. It is impossible to measure informal sec-

Figure 2.10 **Change in GDP per capita in selected post-conflict countries**



Note: Countries are ranked from left to right; countries with the shortest conflicts are on the left and those with the longest on the right. The conflict periods considered are those during which economic activity is expected to have been most affected on a continuous basis.

Sources: World Bank, 2007a and Heston, Summers and Aten, 2006.

tor activity accurately, and the problem is even greater for war-torn countries. Indeed, one of the most recent, extensive research efforts to estimate the size of informal economies in 110 developing countries explicitly excluded conflict countries for "lack of data".[172]

In the absence of quantitative data, two examples may throw some light on the informal sector in the post-conflict setting. In Afghanistan, during the peak of conflict, almost all the economy was informal, and today large swathes remain outside the formal sector. There is a broad spectrum of 'normal' informal productive and trading activities in agriculture, non-agricultural production (such as furniture making and housing construction) and services. However, opium production has re-emerged as one of the largest economic sectors, with just under 5 percent of agricultural land devoted to poppy and more than 3 million people involved in its cultivation.[173]

In Mozambique the conflict saw an explosion of informal urban activities:

> The war-weary city of Chimoio hummed with economic activity. … The markets in the peri-urban suburbs and the city centre bustled with trade. …At home or in improvised workshops in the city men and boys worked with metal scrap and timber, producing household utensils and hardware such as pots, tables, doors and window frames. …Cooked foods—roasted nuts, cassava and bread—as well as sweet beer were mostly prepared at home and sold at the market, on the main roads and in the city centre.[174]

In these cases, the existence of extensive and profitable activities means that many people have an interest in them continuing and thus may have impeded efforts to bring the economy under official control.

The informal sector in the post-conflict economy is not only likely to be relatively larger than in normal developing countries, it is also likely to be different in how it works and whom it benefits the most. Recent studies of war economies show how informal economic activities in times of war differ in terms of how they help some to wage war, others to profit from it and many others just to survive. One such study identifies these three roles as 'combat', 'shadow' and 'coping' economies, with most war economies displaying features of all three.[175]

In combat economies, 'combat networks' fill the gaps created by destroyed social bonds and community-level exchanges, and "[r]ent-generating wartime activities are no longer a grubby sideline of violent conflict but have become one of its central features".[176] The elite from all factions tend to be the prime players in such economies, but others include criminal profiteers and speculators. These elites resort to corruption and criminality, including the illegal exploitation of natural resources and sometimes even the capture of diaspora remittances and aid flows.[177] Armed groups use these revenues to finance and sustain conflict.

Shadow economies are characterized by economic activities conducted outside state-regulated frameworks and not audited by state institutions. They include, but go beyond, the combat economies. The main actors here are entrepreneurial elites who exploit the situation generated by a mix of corruption, weak governance and porous borders for the purpose of profit. They may even engage across enemy lines to conduct lucrative commercial deals. For example, although transport merchants were primary backers of the Taliban in Afghanistan, these entrepreneurs frequently undermined the Taliban's economic blockade of Hazarajat by keeping trading networks open.[178]

> Rent-generating wartime activities are no longer a grubby sideline of violent conflict but have become one of its central features.

Coping economies encompass the activities adopted by the civilian population as a means of coping and survival in the absence of government-provided services and employment in the formal sector. For example, the production of simple items such as pots, furniture and tools and the production, cooking and sale of food are very common survival activities.[179] In Afghanistan, by the end of the 1990s, about 20 percent of the population depended on poppies (for opium production) for their livelihoods. The opium business clearly illustrates the overlaps between the combat, shadow and coping economies as it is "simultaneously a conflict good, an illicit commodity, and a means of survival".[180]

Combat and shadow economies complicate economic recovery after war in several ways.[181] First, they may limit the political window of opportunity for effecting policy change after war. Very often, those who profit from war are also its victors. They are able to use their accumulated wealth and power to influence the terms of peace agreements in their favour (as in the Democratic Republic of the Congo today and in Liberia under Charles Taylor) or to undermine agreements they deem unfavourable (for example, the Revolutionary United Front (RUF) in Sierra Leone after the 1999 Lomé Peace Accord).[182] Very often, too, ex-fighters become part of the transitional governments charged with overseeing both peace implementation and post-conflict economic recovery. Their interests do not always coincide with the objectives of transparent fiscal systems, economic justice or other reforms aimed at promoting general welfare and national economic recovery. In some cases, the sheer volume of the ill-gotten profits available to post-conflict governing elites can far exceed donor funding, thereby reducing donor leverage for reform.[183] The continuation of combat and shadow economies also complicates already poor state capacities to mobilize tax and customs revenues. Not only do they undermine revenue capabilities, they also reduce the financing available to the state to rebuild infrastructure and strengthen social service provision, while also bolstering the economic base of state rivals.

Lost employment and livelihoods

Contemporary armed conflicts can have a severely negative impact on employment through a variety of mechanisms such as disrupted markets, lower levels of public expenditure and a reduction in essential supplies of imports for productive activities. Civil wars generally constitute a shock to the demand sides of labour markets (in contrast to international wars that generally constitute a shock to the supply side), as private and public investment collapse. This, in turn, leads to very high and persistent unemployment just when war-torn populations and returning combatants need jobs the most.[184]

Following conflicts, jobs tend to be scarce and those available frequently pay much less than conflict-related work did. In addition, job seekers' skills are often ill-suited to post-conflict rebuilding needs.[185] The lack of job opportunities for young people is especially significant since they often constitute a large proportion of the population of post-conflict countries. Young men who are returning from war and are unable to find productive employment may end up having to participate in illicit activities or take up arms again, whether domestically or in a neighbouring country. Even those who manage to find jobs can find the purchasing power of their wages eroded by the high inflation rates that are sometimes experienced by conflict economies. The Democratic Republic of the Congo and Nicaragua, for example, both suffered hyperinflation during the last years of their conflict as their governments strained to finance their expenditures, and in particular to pay for soldiers.[186]

Many recent conflicts have also taken a heavy toll on subsistence farming and forestry and fishery enterprises. The damage is related to the disruption or destruction of transport and communications networks, farm workers fleeing for safety or to join government or insurgent military units, and women who stop tending their fields for fear of attacks by soldiers.[187]

Although few reliable data are available on the size and nature of labour markets in post-conflict countries, very high unemployment and underemployment seem to persist long after the cessation of mass violence. Unemployment is often alleviated through survivalist activities in the urban informal sector or agriculture—activities that are difficult to record. While estimates of unemployment tend to be unreliable, especially in poor countries with a small formal sector, available estimates show high levels of unemployment. For example, in Bosnia and Herzegovina immediately after the war, unemployment was estimated at between 70 and 80 percent.[188] By 2004, official data showed unemployment still hovering around 40 percent.[189] In Afghanistan in 2004, unemployment was reported to be around 30 percent with another 30 percent working part-time or in jobs for which they were overqualified.[190]

2.6 Specific challenges of post-conflict development

The characteristics of post-conflict countries vary considerably owing to a number of factors. These include security factors such as the nature of the conflict and its geographical scope, political factors such as the nature of the peace settlement, institutional factors such as the character and strength of the state, and economic factors such as the level of development and the impact of the conflict on economic activity.

Many of the problems faced by post-conflict countries appear similar to those of many poor developing countries that have avoided conflict. However, war-related destruction and distortions make the development challenge more onerous for post-conflict countries. Further, the implementation environment of post-conflict countries appears to be more challenging than that of developing countries that have not been recently affected by conflict. The following may be more severe in post-conflict countries than in the 'normal' developing country:[191]

- a lack of basic security and corresponding low levels of confidence among economic agents;
- low fiscal capacity due to administrative weaknesses and lack of political support, reducing the government's revenue and tax base;
- a weak administration and judiciary that is unable to check illegal economic activity;
- a high level of criminal activity, which often surges in the post-conflict period, and much predatory behaviour among the elites, especially in resource-rich countries;
- sudden massive movements of people; and
- deep macroeconomic challenges, often including large budget deficits, high inflation and a high debt burden.

There are challenges however that are specific to post-conflict countries. These include:

- generalized insecurity and armed violence;
- high risk of armed conflict recurring;
- unexploded ordinance;
- armed groups contesting the legitimacy of the new government;
- widespread inter-group violence;
- massive destruction of infrastructure and institutions;
- war (or warlord) economies;
- severe scarcity in human capacity (massive population displacement: IDPs, refugees, diasporas);
- collapsed labour markets; and
- militarized international intervention.

2.7 Conclusion

Notwithstanding the devastating destruction suffered by post-conflict countries, they are not 'blank slates' on which the international community or other actors can build new economic and social systems. For a recovery strategy to work, it must acknowledge the home-grown dynamic legacies of civil conflict and consolidate those aspects which have the greatest potential to contribute to longer-run structural change, economic development and state building.[192] This means dealing with the remnants of the institutions, however compromised, as well as with the vested interests that perpetuate conflict dynamics. Dealing with this situation will require new approaches that support, while they may well also constrain, the 'winners' as they consolidate power after the conflict ends.

In addition, given the many and diverse causes of war, and the varied economic, political and social circumstances of conflict countries, post-conflict recovery strategies need to be tailored to the specific circumstances of individual countries. Restoring economic foundations in ways that lessen the risk of war recurring is the greatest challenge for post-conflict recovery. At the same time, the advancement of economic growth and development—and ensuring that the poorest countries share in the benefits of globalization—are essential for reducing the future incidence of civil wars. Sustainable peace and development require a society with a social and political infrastructure that can build a consensus across religious, social and ethnic lines on how best to use the society's assets—and in a way that allows for the participation of different groups. This has been referred to as an 'infrastructure for peace'.[193]

The analyses of what makes conflict recurrence more likely help to indicate the requirements for post-conflict economic recovery policies. A post-conflict economic recovery programme needs to reconstruct physical facilities and rebuild institutions, as well as to institute appropriate macroeconomic policies to lay the foundations for economic growth. It also needs to address the factors likely to raise the risk of conflict recurrence. The latter vary between societies, but critical issues (besides weak economies) include high unemployment levels and deficient employment opportunities, severe horizontal inequalities and the presence of high-value natural resources.

This report identifies four major objectives for post-conflict recovery:

- providing the conditions to generate economic recovery and growth;
- generating employment and other economic opportunities, especially for youth;
- tackling horizontal inequalities, if severe; and
- managing natural resources and distributing the revenues in a transparent and equitable way (particularly relevant to countries rich in natural resources).

All of these objectives are important for the well-being of populations. But they are also important for reducing the risk of conflict recurring and the consequent further undermining of development. Of course, the importance of each will vary according to the particular legacies of conflict. In addition, and underlying all these policies, the need to restore the capacity of the state is critical in societies where it has been seriously compromised.

Chapter 2 notes

[1] UNDP, 2005a; Humphreys and Varchney, 2004.

[2] Pugh and Cooper with Goodhand, 2003; Keen, 1998; Duffield, 2001.

[3] Cramer, 2007.

[4] Walter, 2004.

[5] Collier and Hoeffler, 2002.

[6] Collier et al., 2006. For a fuller analysis see Suhrke and Samset, 2007.

[7] Smith and Stam, 2002.

[8] Mason et al., 2005.

[9] Mason et al., 2005.

[10] Walter, 2004.

[11] Most notably, Luttwak, 1999.

[12] Fortna, 2004.

[13] Hartzell, 1999.

[14] Fortna, 2004.

[15] Wagner, 1993.

[16] Spears, 2000.

[17] Wagner, 1993.

[18] Licklider, 1995, p. 685.

[19] These calculations are based on the countries and regions listed in Table 1.2 in Chapter 1 and using Uppsala Conflict Data Program (UCDP) data for conflict recurrence and type of termination.

[20] Doyle and Sambanis, 2006.

[21] Kreutz, 2006.

[22] Human Security Centre, 2005, p. 9; Doyle and Sambanis, 2006.

[23] Walter, 1997.

[24] Doyle and Sambanis, 2006.

[25] Bellamy and Williams, 2005.

[26] Crocker et al., 2007.

[27] Elbadawi and Sambanis, 2002; Humphreys and Richards, 2005; Sambanis, 2004b.

[28] Collier et al., 2006.

[29] Humphreys, 2003.

[30] Collier and Hoeffler, 2004a; Fearon and Laitin, 2003; Miguel et al., 2004.

[31] Collier et al., 2006._

[32] Kang and Meernik, 2005.

[33] Collier et al., 2006.

[34] Auvinen and Nafziger, 1999.

[35] Stewart, 2008; Stewart et al., 2007a.

[36] Stewart, 2000; Stewart, 2002.

[37] Stewart et al., 2007b.

[38] Stewart et al., 2007b.

[39] Uvin, 2000; Gaffney, 2000.

[40] Cobham, 2005; Langer, 2005; Ndikumana, 2005.

[41] Ostby, 2006.

[42] Ostby, 2006.

[43] Mancini, 2005.

[44] Murshed and Gates, 2005.

[45] Ostby, 2006; Stewart, 2008.

[46] Stewart et al., 2007b.

[47] de Tocqueville, 1954, quoted in Russett, 1964.

[48] Little work has been done on how resources affect the risk of conflict recurrence. One exception is the on-going research undertaken by Helga Malmin Binningsbø and Siri Aas Rustad at the PRIO (International Peace Research Institute, Oslo) Centre for the Study of War investigating the connection between resource conflicts, resource management and post-conflict peace. See Binningsbø and Rustad, 2007

[49] Collier and Hoeffler, 1998; de Soysa, 2002; Fearon, 2004; Humphreys, 2005; Ross, 2004; Ross, 2006.

[50] Ross, 2004.

[51] Fearon and Laitin, 2003.

[52] Ross, 2006; Ross, 2007.

[53] Analysed in Humphreys, 2005.

[54] Collier and Hoeffler, 2004a; Collier, 2003.

[55] Humphreys, 2005; Ballentine, 2003.

[56] Stewart et al., 2007b.

[57] Tadjoeddin, 2007.

[58] Ross, 2008.

[59] Goldstone, 2001; Urdal, 2004.

[60] This is based on 2000 population data. See Urdal, 2006, p. 617.

[61] Urdal, 2006.

[62] UNDP, 2006; Sommers, 2006a.

[63] UNDP, 2006, p. 11, cited in Peters et al., 2003.

[64] UNDP, 2006.

[65] Collier and Hoeffler, 2004b.

[66] Putnam, 2000.

[67] Collier and Hoeffler, 2004c.

[68] Kang and Meernik, 2005.

[69] Brück, 2001a.

[70] UNDP Liberia, 2006.

[71] Kisangani, 2006.

[72] UNDP, 2005a.

[73] Collier et al., 2003.

[74] UNEP, 2007.

[75] Kisangani, 2006.

[76] Tegera et al., 2002.

[77] United Nations, 2001, paragraph 47.

[78] UNDP Liberia, 2006.

[79] Based on UNEP, 2007.

[80] Fitzpatrick, 2002a.

[81] Matovu and Stewart, 2001.

[82] Collier et al., 2003.

[83] ICBL, 2006.

[84] *The Economist,* 2002.

[85] Human Security Centre, 2005, p. 7.

[86] See also Sen, 1981.

[87] Human Security Centre, 2005.

[88] Ghobarah et al., 2003.
[89] Human Security Centre, 2005.
[90] Human Security Centre, 2005.
[91] Collier, et al., 2003.
[92] UNAIDS, 2004.
[93] Winter, 2004a.
[94] UNDP Somalia, 2001.
[95] Marchal, 2005. This practice has dire consequences not only for human beings but also for livestock, as documented by Montani and Majid, 2002.
[96] Persyn and Ladrière, 2004.
[97] Stewart and Fitzgerald, 2001a and b.
[98] UNDP, 2005a.
[99] Data from de Jong, 2002.
[100] Collier et al., 2003.
[101] Karem, et al., 2008.
[102] Counter intuitively perhaps, some recent research suggests that the impact of war on the mental health of child soldiers is not always so severe and widespread as is commonly expected. See Blattman and Annan, 2007.
[103] Human Security Centre, 2005.
[104] Newman and van Selm, 2003, p. 5.
[105] Hamilton and Chinchilla, 1991.
[106] UNHCR, 2007.
[107] UNHCR, 2007.
[108] United Nations, 2005.
[109] 'Persons of concern to UNHCR' include refugees, asylum-seekers, returnees, IDPs and stateless persons. See UNHCR 2006, p. 18.
[110] Haroon, 2005, cited in Jacobsen, 2005, p. 46.
[111] Jacobsen, 2005.
[112] Jacobsen, 2005.
[113] Tomlinson and Benefield, 2005.
[114] Li, 2007.
[115] Dukuly, 2004.
[116] World Bank, 2005a.
[117] World Bank, 2005a.
[118] World Bank, 2005a.
[119] World Bank, 2005a.
[120] De Walque, 2008.
[121] World Bank, 2008a.
[122] Lai and Thyne, 2007.
[123] Lai and Thyne, 2007.
[124] Marquez and Bannon, 2003.
[125] Stewart et al., 2001.
[126] In Mozambique, for example, primary school enrolment fell from 99 percent in 1980 to 67 percent in 1992. See Stewart and Fitzgerald, 2001a.
[127] Stewart and Fitzgerald, 2001a.
[128] World Bank, 2005a. See also Harrison, 2002.
[129] UNDP Somalia, 2001.

[130] Nenova and Harford, 2004.
[131] Chen et al., 2007.
[132] World Bank, 2005a.
[133] Some perspectives even see war economies as providing excellent training for entrepreneurship. See, for example, Cramer and Goodhand, 2002, p. 88. A study on captive mothers in Northern Uganda found that "women learned leadership skills in captivity, some became leaders of women and children groups that often temporarily split from battalions during battle; others were commanders in charge of their own battalions, still others were trained in medicine, administration, business and market sales." See Baines, 2008, p. 2.
[134] Davies, 2007a.
[135] Collier et al., 2003, p. 15.
[136] Davies, 2007a; Collier et al., 2004.
[137] Collier et al., 2003.
[138] Davies, 2007b.
[139] Collier, 2007, p. 7.
[140] Ndikumana and Boyce, 2008.
[141] World Bank, 2006a.
[142] Huggins and Clover, 2005; Unruh, 2002; Fitzpatrick, 2002a.
[143] Unruh, 2004.
[144] Boyce, 1998.
[145] UNDP, 2005a.
[146] Carbonnier, 2003.
[147] UNDP, 2005a.
[148] World Bank, 2003a.
[149] UNDP, 2005a.
[150] Stewart, 2008.
[151] Collier et al., 2006.
[152] Collier et al., 2006.
[153] Reychler, 1999.
[154] Stewart and Fitzgerald, 2001a.
[155] Oxfam International, 2007.
[156] Collier and Hoeffler, 2004d, p. 8.
[157] Collier, 1999.
[158] Hoeffler and Reynal-Querol, 2003; Imai and Weinstein, 2000.
[159] Stewart et al., 2001.
[160] Staines, 2004. As the author points out, the post-1990 results are heavily driven by the economic collapse of several countries that emerged from the dissolution of the Soviet Union and the Republic of Yugoslavia.
[161] Staines, 2004.
[162] Stewart and Fitzgerald, 2001a.
[163] Stewart and Humphreys, 1997.
[164] Stewart and Fitzgerald, 2001a.
[165] Collier et al., 2003, p. 31.
[166] The countries listed in Figures 2.9 and 2.10 are the set of 29 countries that are the focus of Chapter 4. The conflict period considered is that during which the economy is expected to have been most impacted by war, as discussed in Chapter 4.
[167] For example, all sampled countries that experienced an average annual decline in their GDP per capita of greater than 10% had conflict lasting less than six years. Furthermore, the average annual decline in GDP per capita in countries where conflict lasted for less than 10 years is 8 percent (in 14 countries), while it is 3 percent in countries where conflict lasted for 10 years or more (in 15 countries).

[168] In countries where conflict lasted for 10 years or more, GDP per capita declined by 35 percent on average, 10 percentage points higher than in countries where conflict lasted for 10 years or less.

[169] Cramer, 2008 (forthcoming).

[170] Carbonnier, 2003, p. 299; Carbonnier, 1999, p. 299.

[171] Wennmann, 2005.

[172] Schneider, 2002.

[173] UNODC, 2007.

[174] Chingono, 2001, pp. 101–102.

[175] Goodhand, 2004.

[176] Cramer, 2008 (forthcoming).

[177] Ballentine and Sherman, 2003; Anderson, 1999; Shearer, 2000.

[178] Goodhand, 2004.

[179] See Chingono, 2001.

[180] Goodhand, 2004, p. 163.

[181] Carbonnier, 2003.

[182] Human Rights Watch, 2000.

[183] Wennmann, 2005.

[184] McLeod and Davalos, 2007.

[185] Beasley, 2006.

[186] For hyperinflation in the Democratic Republic of the Congo see IMF, 2001 and for hyperinflation in Nicaragua see Wallace and Shelley, 2004.

[187] Human Rights Watch, 2002.

[188] World Bank, 1997.

[189] Bojicic-Dzelilovic and Causevic, 2008; Hawtin, 2004.

[190] According to an ILO source cited in IRIN News, 2004.

[191] Carbonnier, 2003.

[192] Cramer, 2008 (forthcoming).

[193] UNDP, 2005a.

Strengthening the Indigenous Drivers of Post-Conflict Economic Recovery

Sewing class run by an NGO which helps women and girls to develop skills for income generation, Freetown, Sierra Leone, 2005 (Jenny Matthews/Panos Pictures)

3.1 Introduction

War-afflicted populations display a remarkable degree of resourcefulness and ingenuity in responding to adverse circumstances, both during conflict and afterwards. A great deal of economic activity is undermined or altered during conflict, but much still continues. When conflict ends, local communities, individuals, households and enterprises are eager to resume economic activity and recover their livelihoods or find new ones. Which economic activities they can carry out in the aftermath of conflict depends on their particular circumstances and location, such as whether they live in a rural or urban area, and whether they were displaced and are now returning or staying put.

The common factor across all these settings is that the end of conflict sees people unleashing considerable energy and resilience to get their lives back. This chapter explores how best to support and build on this drive in order to accelerate and strengthen self-sustained economic recovery. The notion of 'indigenous drivers of economic recovery' denotes the efforts and initiatives of local communities, individuals, households and enterprises that stimulate and impel economic activity after war. It also implies the need to understand historically the social and production relations, the institutional dynamics and the relations of power that are at work in the aftermath of conflict.[1]

Amos Sawyer, President of Liberia's Government of National Unity from 1990 to 1994, captured an important aspect of indigenous drivers:

> In the case of Liberia where we have had over 15 years of war and before that some other 10–15 years of intermittent violence, one cannot ignore the mechanisms and institutions that helped people survive. … Clearly ordinary people had some capabilities of their own, even if they were residual. Villages were plundered; young boys went in and burned down villages, killing a lot of people, but some people as a whole community survived. What did they do? My idea basically is that we need to understand these internal capabilities.[2]

> The notion of 'indigenous drivers of economic recovery' denotes the efforts and initiatives of local communities, individuals, households and enterprises that stimulate and impel economic activity after war.

Examples of socio-economic continuities during conflict abound in all sectors. They include maintaining or reviving farms; running microenterprises; maintaining schools, healthcare centres and roads; and keeping mutual help associations running. At the end of conflict, people continue to face various obstacles and challenges that impede recovery. Among the most common are the pervasive personal and community insecurity, the fragility of the infrastructure, the frailty of social networks and the lack of access to productive capital.

The indigenous drivers perspective locates the efforts of individuals, households and communities within their socio-historical context and highlights these as the most viable platform on which to base post-war recovery and international support. The premise is that local actors are the best placed and have the strongest incentive to rehabilitate their livelihoods after war. Post-conflict recovery policies that harness and build on local capacities and on social processes and interactions on the ground may require more preparation time, but because they respect local conditions and people's actual circumstances they are more likely to be successful and self-sustaining in the long run.

While this approach places national and local actors, institutions and resources at its centre, it recognizes the crucial role of development assistance. At the community level, the spontaneous efforts are simply not sufficient, given the magnitude of needs and the limited capacities available. At the national level, the considerable resources required after war are usually beyond the means of governments. Development assistance is needed, but it must be designed and implemented with two key objectives and one overriding principle in mind.

- The first objective is to support and complement ongoing indigenous efforts, while addressing their limitations. The second objective is to lay the ground for further 'locally grown' initiatives, paying particular attention to the obstacles and unmet needs that may constrain their future development.
- The obvious starting point for these objectives is an initial post-conflict needs assessments. Beyond this, a capabilities assessment as well as a political economy analysis would provide a properly grounded baseline of what and how people are already contributing to the recovery process.
- In addition, the overriding principle behind all activities and initiatives undertaken in support of these objectives must be to abide by the 'do no harm' principle. This means that any action that could stir up social tensions or otherwise increase the likelihood of a relapse into conflict must be avoided. Development support strategies must thus take full account of the political, ethnic and religious dynamics that have emerged from or may have contributed to conflict in the first place.

Conceptually, the indigenous drivers approach includes, but goes beyond, participation and local (or national) ownership. It allows people and communities, as well as national institutions, to establish the priorities for post-conflict recovery and for reshaping or reforming institutions. This approach can be expected to modify the conventional set of criteria against which interventions are identified, evaluated and selected in contexts characterized by multiple objectives and constraints. The approach also encompasses the familiar notion of capacity development. However, it is larger because of its additional focus on reducing conflict risk. Nurturing indigenous drivers involves explicitly identifying the capacities, capabilities and tensions inherent in systems and processes and in organizational, community and even national dynamics as observed in the immediate aftermath of conflict. Recovery policies should respect these dynamics even as they determine where they may need to be modified or strengthened.

This chapter has eight sections beyond this introduction. Drawing from the legacies of war described in Chapter 2 and focusing on the challenges they pose for recovery, we examine how indigenous drivers can be reinforced and stimulated in six critical areas (covered in the next six sections): reconstructing basic economic infrastructure; reconstituting human capital; reintegrating ex-combatants and displaced populations; providing employment and livelihoods; rebuilding social capital, local institutions and governance mechanisms; and mediating access to finance.

Even with our emphasis on indigenous drivers, development assistance remains necessary. Accordingly, the penultimate section looks at how the development assistance frameworks typically deployed immediately after war ends can be better adapted to support and help remove impediments to indigenous drivers. A final section summarizes the issues and draws out the key messages.

3.2 Rehabilitating infrastructure

The rehabilitation of infrastructure is critical for the recovery of war-torn countries. In sub-Saharan Africa, rates of access to electricity are around 75 percent lower in conflict-affected countries than in countries that have not been affected.[3] Similarly, there are less than a third as many phone lines per 100 people, only half as many roads are paved and the proportion of the population with access to treated water is 15 percentage points lower than in non-conflict-affected countries.[4] In Kosovo, almost eight years after the cessation of mass violence, there were still power cuts several times a week, even in the capital city Pristina, often lasting several hours. Water cuts also occur.[5] In Liberia, handpumps were still the main source of drinking water in Monrovia several years after war ended in 2003, even though US$5,000 would have partly rehabilitated the main pipe from the treatment plant and about US$12 million would have restored running water to the whole city.[6] Such deficiencies are not universal across post-war countries however, and their infrastructure is occasionally actually better than the averages for their regions.

From an economic perspective, infrastructure facilitates economic activity by lowering unit costs, enlarging markets and facilitating trade. One example of this is the rapid spread of cell phones (discussed further below) and the significant economic benefits this has brought, particularly in assisting the diffusion of market information. Yet some recent research, including in post-conflict countries, gives a more nuanced view suggesting that the effect of infrastructural investment on productivity and output is highly context-specific.[7] This underlines the importance of undertaking rigorous analysis of local needs and priorities.

As indicated in Chapter 2, the case for physical infrastructure rehabilitation goes beyond the economic argument because it also has a direct impact on development outcomes such as health and education. Improvements in these areas will often have a large positive impact on long-term economic growth.[8] In particular, the restoration of water and sanitation infrastructure has a direct impact on health.

In post-conflict settings, infrastructure rehabilitation projects can provide much-needed employment and economic opportunities, with substantial multiplier effects on local communities and the aggregate economy if materials and labour are sourced locally. This indicates a great opportunity to build on and strengthen indigenous drivers. Even food-for-work schemes, as deployed in many post-conflict settings, could be modified to support indigenous drivers.[9] The development impact of these schemes is enhanced where food is bought from local sources, as this allows supplying households to obtain cash, which could then be spent locally on other goods.[10]

An important preliminary policy deduction seems to be that the case for post-conflict infrastructure cannot rest solely on the standard 'growth' argument, a view that may have favoured mega projects over rural feeder roads and community infrastructure, for instance. Ultimately, the question is not whether infrastructure as such is good in post-conflict settings, but what type of projects and external support are most needed and most conducive to sustained recovery.

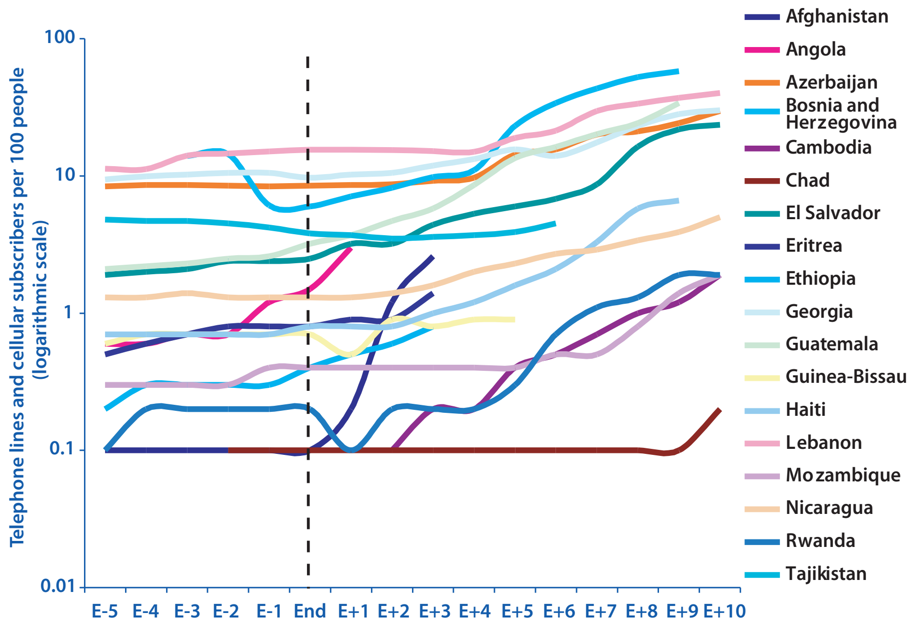
Local responses to infrastructure provisions: the example of telecoms

In some cases, local populations and entrepreneurs have been able to take the initiative in improving local infrastructure, sometimes with the help of family members in the diaspora. Overall, however, these efforts are generally inadequate to tackle the magnitude and types of needs on the ground. This suggests that the rehabilitation of infrastructure will usually need significant support from the donor community.

Improvements in telecommunications have been one of the most notable developments in post-conflict countries, particularly in Africa. In the last decade, mobile phone companies have typically been among the first to enter conflict-afflicted areas "as soon as—or even before—conflicts end".[11] Substantial investments are not needed to establish cellphone networks, nor do they depend on precarious physical investment. The existence of substantial 'pent-up demand' for telephony makes the mobile phone market very attractive to investors.[12] In 1999 in the Democratic Republic of the Congo, for example, a Gambian entrepreneur paid US$2 million for a Global Systems for Mobile Communications (GSM) license to supplement the 15,000 landlines in a country of more than 60 million people. He was eventually also able to install software and equipment for pre-paid phones and, despite ongoing instability, all four major factional leaders allowed cellphone towers to be erected without any additional fees being paid. The company now has three million subscribers (half of the total in the country), and was recently valued at US$1.6 billion.[13]

Re-establishing landlines can prove more difficult, but in some instances the process has actually been facilitated by the absence of a national government that is able to regulate and tax the industry.[14] Residents of Mogadishu were able to have new landlines installed in only three days (compared with waiting times of weeks or months in neighbouring countries that have functioning governments and monopolies in the telecommunications sector). In 2004, cyber cafés charged only US$0.50 an hour for Internet access.[15] Thus, post-war communications infrastructure has been a rather positive story (Figure 3.1).

Figure 3.1 **Teleconnectivity in selected post-conflict countries**



Note: Along the horizontal axis 'End' refers to end year of conflict; thus, for instance, 'E-5' refers to five years before the end years of conflict and 'E+5' refers to five years after the end of conflict.

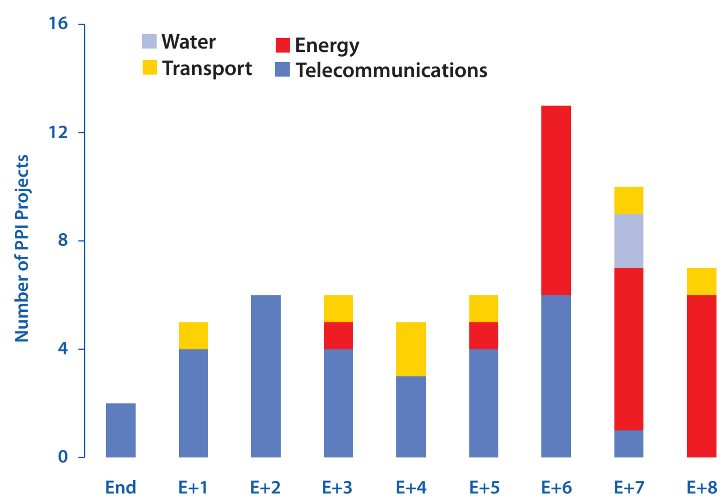
Source: World Bank, 2006b.

The record of local small-scale telecom providers is mixed, however, underlining the need for more effective public intervention and external support. Small providers typically face the challenges of securing adequate financing, assuring consistent quality and reaching all sectors of society. Cellphone networks may not reach the very poor as the cheapest handsets, priced at around US$20–30, are an enormous investment for households with a yearly income of only a few hundred dollars.[16] One response has been for poor people to purchase just a SIM card and use this in a handset rented from a roadside kiosk. Another has been the emergence of phone 'shops' (often just street stalls), where the shopkeepers' cellphones can be used on a per-call basis. In Papua New Guinea, a donor-sponsored initiative appointed a woman from each of several villages to run such shops. Not only did the scheme spread access to telecommunications, it also generated income for (a few) rural women.[17] The question is: in these settings, how can large private or public sector investment best support the efforts and address the needs of local populations?

Private versus public investment in infrastructure rehabilitation

There is no reason in principle why large investors cannot help meet post-conflict infrastructural needs. However, small-scale enterprises are often the main players in the short term, and evidence points to an inability of large private investment to respond fully to the challenges of rebuilding infrastructure. A key problem is the fact that private investors are inevitably guided by profitability above social considerations, which may lead to the neglect of the needs of local populations. Privately funded electricity projects generally start emerging around three years after conflict has ended, with major capital works like transmission grids, gas pipelines or large power generators being installed only after six years (Figure 3.2). Private investment in transport infrastructure and water tends to come even later, with transport tending to favour ports rather than roads or rail.[18] Shortages and delays in private investment have been particularly severe in countries where war has been so prolonged or geographically pervasive that state capacity has collapsed.

Figure 3.2 **Private infrastructure investments after conflict**



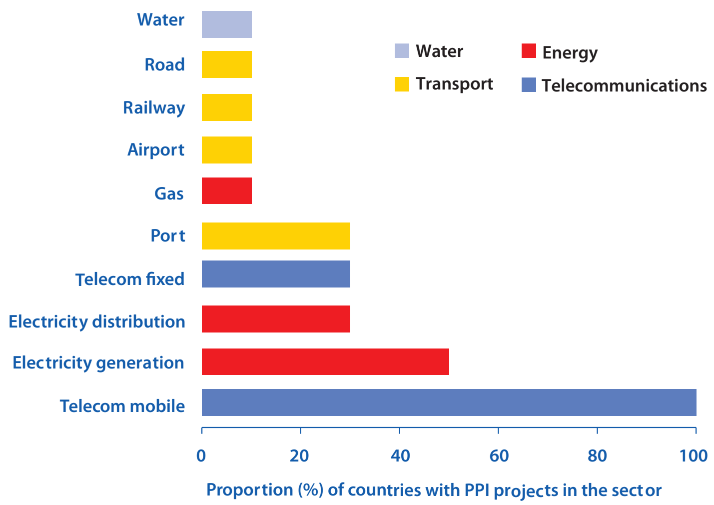
Note: Schwartz et al. use investments in 10 post-conflict countries for which 8 years of consistent data were available: Azerbaijan, Cambodia, El Salvador, Georgia, Lebanon, Mozambique, Nicaragua, Rwanda, Tajikistan and Yemen. PPI indicates private participation in infrastructure, according to the World Bank definitions used at http://ppi.worldbank.org/index.aspx.

Source: Schwartz et al., 2004, p.14.

The continuation of post-war risks may partly explain why, by some estimates, 25 conflict-affected countries described as 'weak or non-functioning'[19] received on average only US$46 million annually (0.74 percent of their GDP) as private investment in infrastructure[20] between 1990 and 2002, compared to an average of US$455 million to 107 non-conflict developing countries (0.92 percent of their GDP). Furthermore, four of these countries received no private infrastructure investment whatsoever.[21]

Large private investment, when it does materialize, has tended to favour regions linked to lucrative industrial sectors and exports—paying less attention to the needs of poorer areas and vulnerable groups within the country. In Mozambique, for example, roads and rail are being installed along the east–west axis in order to bring goods to and from harbours. North–south infrastructure, which could foster food security, has received lower priority. New foreign investors in Africa, such as China, appear to be following the same pattern. Of US$5 billion China aims to spend on economic and social infrastructure in the Democratic Republic of the Congo, the two largest projects are a road linking the mineral-rich north-east to the Zambian border, and a railway linking the mining heartland of Katanga to the port of Matadi.[22] These investments do not include building feeder roads.[23]

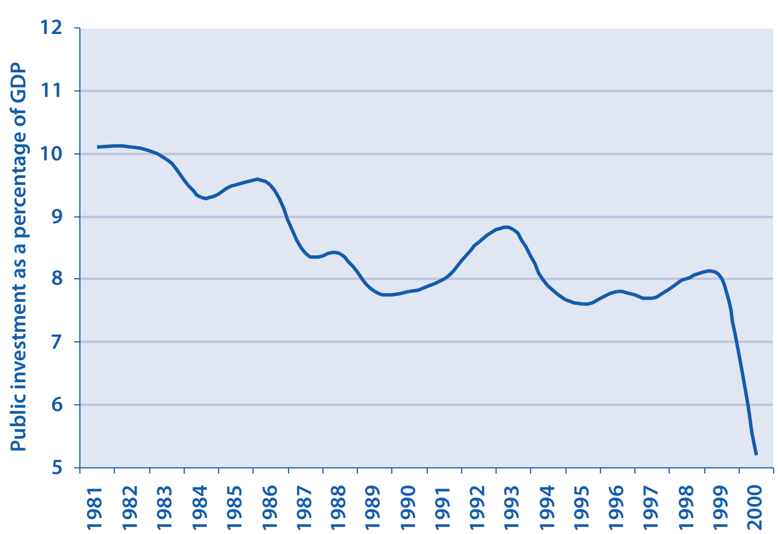
Figure 3.3 **Private participation in infrastructure development**



Note: Data come from 31 post-conflict and conflict-affected countries. These include the 25 'weak or non-functioning states' listed in endnote 19, plus Colombia, Peru, the Philippines, Russian Federation, Sri Lanka, and Turkey, considered by Schwartz et. al as "functioning states" engaged in a "regional conflict".

Source: Schwartz et al., 2004, p. 15.

Figure 3.4 **Public investment in developing countries**



Source: Everhart and Sumlinski, 2001, p. 2.

and local infrastructure that could facilitate livelihood improvements for local populations. Neglecting to invest in poorer areas or in infrastructure that benefits poorer groups can exacerbate horizontal inequalities.

Figure 3.3 illustrates the overall spread of private participation in infrastructure development in 31 post-conflict and conflict-affected countries.

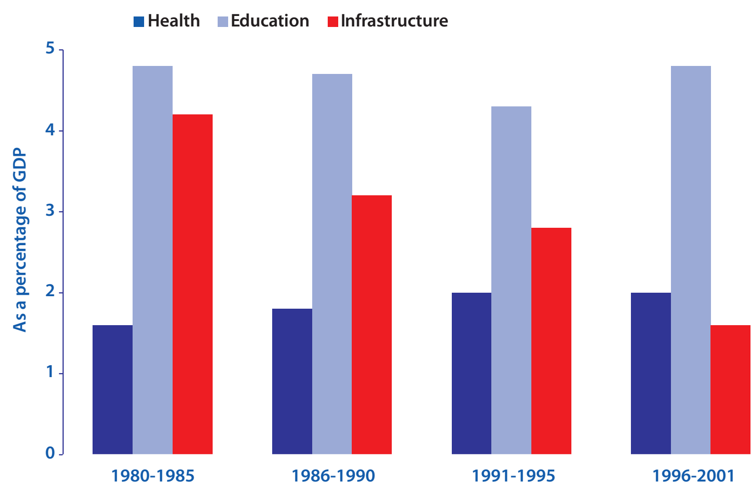
Clearly, there is a strong case for public intervention (broadly interpreted) in rebuilding and developing infrastructure in post-conflict settings. However, public and ODA spending on infrastructure actually stalled or declined during the 1980s and 1990s. It is well documented that public investment—and especially public spending on infrastructure—has been declining (as a share of GDP) in the developing world over the past two decades[24] (Figures 3.4 and 3.5).

A major reason for the decline in public investment in infrastructure has had to do with shifting development cooperation priorities embodied in the structural adjustment programmes of the 1980s and 1990s.[25] While this was not their initial intention, these programmes typically resulted in 'fiscal adjustment' falling disproportionately on public investment in infrastructure.[26] This was acknowledged in a 2004 International Monetary Fund (IMF) report.[27] The Commission for Africa also concluded that the sharp reduction in infrastructure investment "was a policy mistake founded in a new dogma of the 1980s and 1990s asserting that infrastructure would now be financed by the private sector."[28]

Two other sets of factors have affected aid priorities. First, criticisms of 'tied aid', concerns about corruption and outcries about 'white elephants' have influenced the donor community to shift from infrastructure towards social and public administration programmes.[29] Second, widespread acceptance in the late 1980s and early 1990s that poverty was multidimensional generated renewed emphasis on education and health as critical dimensions of human development. This shift towards the social sector became international protocol in 1995 at the World Summit for Social Development held in Copenhagen. It was later to become embodied in the Millennium Development Goals (MDGs) agenda.

What then has been the trend in post-conflict countries? Figures 3.6, 3.7, 3.8 and 3.9 are derived from ODA allocations to a sample of 21 countries[30] that have become post-conflict countries since 1989. Figure 3.6 indicates that while total ODA to these countries increased sharply since the early 1990s (from US$4.2 billion in 1991 to US$10.3 billion in 2006), the share dedicated to economic infrastructure was highly volatile over the period. After a decline in the early 1990s, and a rebound between 1996 and 1998, it dropped sharply over the next few years, resulting in an overall decline from 20 to 10 percent of total ODA between 1991 and 2000. This share decreased further to an even lower 5.9 percent in 2002 (driven by an overall reduction in volume from US$850 million in 1991 to US$620 million in 2000 and US$550 million in 2002, see Data Appendix). Figure 3.7 shows that both features (volatility and an overall drop caused by a sharp decline from 1996 to 2002) are also noticeable at the global level, but are more pronounced in the case of the sampled post-conflict countries.

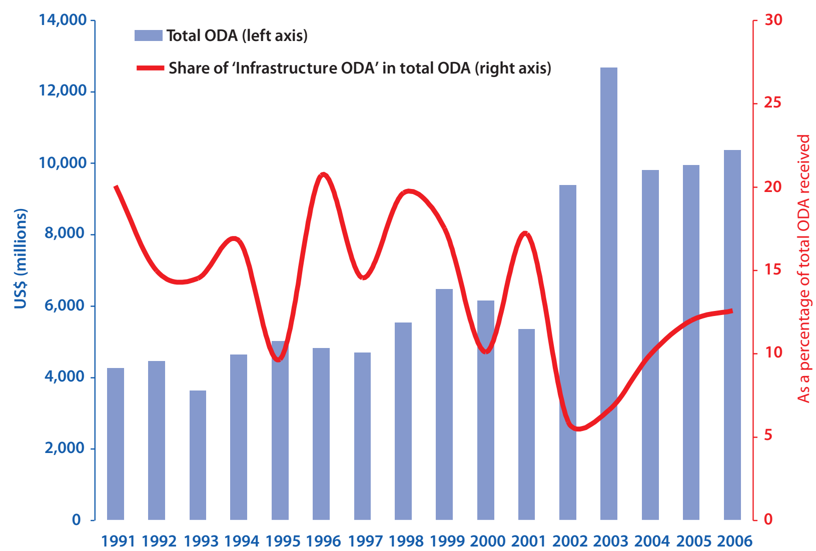
Figure 3.5 Sectoral allocation of public expenditure in Africa



Note: 11 African countries sampled

Source: Estache, 2005.

Figure 3.6 ODA allocated to infrastructure and total ODA

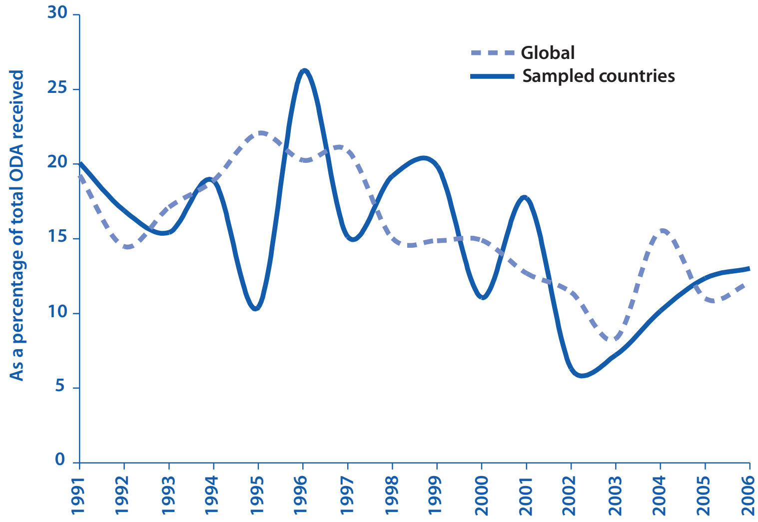


Note: The data used are for the 21 countries listed in endnote 30.

Source: OECD, 2008a and the authors' calculations.

A clear upward trend is noticeable since 2002–2003, both at the global level and in the sample. This might be explained by several factors, such as the substantial support to post-war infrastructure reconstruction in Azerbaijan, Georgia, Liberia and Sierra Leone, and the renewed interest in infrastructure from the donor community. Yet the infrastructure ODA received by the 21 coun-

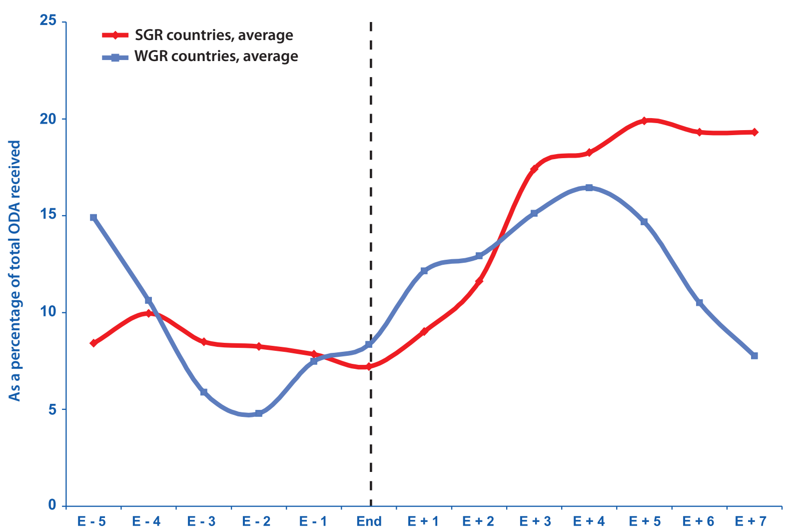
Figure 3.7 **ODA allocated to infrastructure: Global versus sampled post-conflict countries**



Note: The 21 sampled countries are those listed in endnote 30.

Source: OECD, 2008a and the authors' calculations.

Figure 3.8 **ODA allocated to infrastructure: Strong Growth Recovery (SGR) versus Weak Growth Recovery (WGR) countries (3-year moving average)**



Note: The twelve countries sampled in the SGR group are: Angola, Azerbaijan, Bosnia and Herzegovina, Cambodia, Democratic Republic of the Congo, Georgia, Liberia, Mozambique, Sierra Leone, Solomon Islands, Rwanda and Tajikistan. The nine countries sampled in the WGR group are: Burundi, Côte d'Ivoire, El Salvador, Guatemala, Guinea-Bissau, Haiti, Namibia, Papua New Guinea, and Timor-Leste.

Source: Estache, 2005.

tries, as a percentage of their GDP, has been rather stable over time, with the average fluctuating between one and two percent.[31]

This, however, does not mean that these countries have not benefited from an increased emphasis on infrastructure from the donor community in the aftermath of conflict. Figure 3.8 shows average ODA allocated to infrastructure as a share of total ODA in two groups of countries for which sufficient data are available: Strong Growth Recovery (SGR) countries and Weak Growth Recovery (WGR) countries.[32] Interestingly, starting at comparable levels, it appears that the average share of 'infrastructure ODA' received after conflict increases more rapidly in the SGR than in the WGR group. Furthermore, while the former keeps rising in the medium run to close to 20 percent, the latter starts falling and drops below 10 percent.[33] In both cases, these trends typically follow the massive destruction and the low allocation for infrastructure during conflict.

On balance, the evidence seems to indicate that infrastructure may not have received enough attention from external partners, even in post-conflict countries where massive destruction has occurred. Fortunately, the picture is slowly changing. World Bank lending to infrastructure declined from a high of US$8.5 billion per year in the 1980s and 1990s to US$5.7 billion in 2002, representing only 30 percent of its total lending.[34] However, infrastructure has been put 'back in the center' of the World Bank's agenda since 2003.[35] The Bank increased its global commitments involving infrastructure to US$9.9 billion in 2007—half of which was for transport—a 24 percent increase over the previous year.[36] As an example, US$37 million was allocated in 2007 by the World Bank and the European Commission to rebuilding infrastructure in Liberia, including major bridges on principal road corridors, road maintenance and rehabilitating the capital Monrovia's main water treatment plant to at least 50 percent of its capacity. The programme is also providing potable water in secondary cities and marketplaces, and post-harvest handling facilities for cocoa, coffee and other cash crops.[37] Similarly, in the Democratic Republic of the Congo, a multi-donor Emergency Multisector Rehabilitation and Reconstruction Project budgeted US$1.1 billion for transport, roads, electricity and water supply improvements between 2002 and 2005.[38] This new strategic shift has resulted in a slight increase in the share of ODA dedicated to infrastructure globally as well as in conflict-affected countries.

Post-conflict countries should be regarded as having a prima facie case for substantial external support for infrastructure development.

Post-conflict countries should be regarded as having a prima facie case for substantial external support for infrastructure development. Such support could be via direct budget support or loans with high grant elements. Infrastructure could also be a priority for investment guarantees, such as those provided by the World Bank Group's Multilateral Investment Guarantee Agency (MIGA).

Technical and institutional challenges facing large-scale infrastructure rehabilitation projects

While the recent evolution in ODA priorities is welcome, large-scale infrastructural rehabilitation continues to face significant challenges in early post-war periods. The shortage of local technical capacities is often a major problem, as technical knowledge and skills may have deteriorated during the war and senior technical personnel may have been killed or have left the country. In Mostar, Bosnia, all workers in the local water company with knowledge of the distribution network had either died in the war or had emigrated.[39] In Timor-Leste, prior to the conflict, managers and skilled technicians had been predominantly Indonesian and they had subsequently left.[40] Such capacity shortfalls have a number of negative consequences,[41] including delays in enacting essential regulatory and structural reforms in infrastructure sectors.

In some cases, externally sponsored initiatives have not been sensitive enough to the legacies of war.[42] In Bosnia, for instance, the donor community helped rehabilitate basic services as a means of attracting back displaced populations. The responsibility for these services was then turned over to the newly installed federal, state and municipal agencies, even when this meant splitting water companies and resources between Muslim and Bosnian Serb population centers, with all the associated operational problems and implications for social tension.[43]

On the other hand, there is evidence of the positive impact of an approach that recognizes the pivotal role of local populations and local dynamics. In a number of countries, including Cambodia and Rwanda, labour-based infrastructure construction was found to be 10–30 percent less costly than capital-intensive options and created between two and four times more employment.[44] As noted in Chapter 2, this is especially important in a post-conflict context. In the first 10 years of operation after 1992, the Labour-based Rural Infrastructure Rehabilitation Project in post-conflict Cambodia provided local workers with over 3 million paid workdays (50 percent of which were for women) and trained hundreds of managers, private contractors and government staff. It rehabilitated over 600 km of rural roads, 80 bridges, 460 culvert crossings, 26 irrigation water gates

BOX 3.1 MAPUTO URBAN REHABILITATION PROJECT: ASPHALT VERSUS CONCRETE PAVING FOR TERTIARY ROADS

This World Bank-financed project, completed in 1997, tested the application of concrete paving for tertiary roads. These roads proved to be cheaper to build and maintain and more sustainable than the standard asphalt paving. The concrete paving method was initially resisted by the international engineering firm contracted to design and supervise road construction. The Bank agreed with the Road Department of the Ministry of Construction to experiment by contrasting the two technologies on short road segments with comparable heavy vehicle traffic and subsoil conditions. Although the asphalt road was built more quickly it relied almost entirely on scarce foreign exchange. It required foreign engineers and imported fuel, asphalt, machines and spare parts. The concrete paved road took longer to build, but used more labour inputs and only the local materials of sand and cement. Within a year, the lack of periodic maintenance on the asphalt road resulted in potholes. Meanwhile, the concrete absorbed rain through cracks between slabs and required no maintenance. By year three, the rolling carpet of the asphalt road had to be replaced, and by year five the road had to be virtually rebuilt, more than doubling the original investment cost. In contrast, ten years later, the concrete paved road required only minimal maintenance and was still fully functional. The experiment paid off also in policy impact. Although asphalt roads are still being built in parts of Mozambique, a recent ordinance stipulates that all new or unpaved streets in the city of Maputo will be surfaced with concrete paving in the future.

Source: World Bank, 2006c.

and 55 km of irrigation canals.[45] Another context-sensitive approach is described in Box 3.1.

Unfortunately, the opportunity to be context sensitive is often missed. In Iraq, foreign contractors have pursued capital-intensive methods and even shipped in labour from South Asian countries, despite local unemployment rates being as high as 50 percent with substantial underemployment as well.[46] In the same way in Timor-Leste, labour-based infrastructure techniques were sidelined in favour of equipment-based approaches.[47] In Mostar, Bosnia, an agreement to share the output of two electric plants was undermined by a unilateral agreement with the Bosnians by the World Bank to repair one of the plants, which provoked the Croatians to repair the other and led to inefficiencies in its electricity grid.[48] These distortions often reflect the institutional biases and economic priorities of external actors, but can also result from local procurement regulations excluding local small contractors from participating in public works.[49]

Several interesting initiatives to overcome these distortions deserve a mention. The Eritrean Government was able to restrict technical assistance and imported resources when it was felt that there was sufficient local capacity for recovery programmes initiated following the end of conflict in 1991.[50] The idea has been extended further by the International Labour Organization (ILO) in its proposals for 'community contracts', whereby local communities are themselves contracted to carry out infrastructure projects.[51] In other instances, construction and transport tenders have been allocated in small chunks suitable to low-technology methods.[52]

Policy implications

Five policy messages emerge by viewing infrastructure through the prism of indigenous drivers.

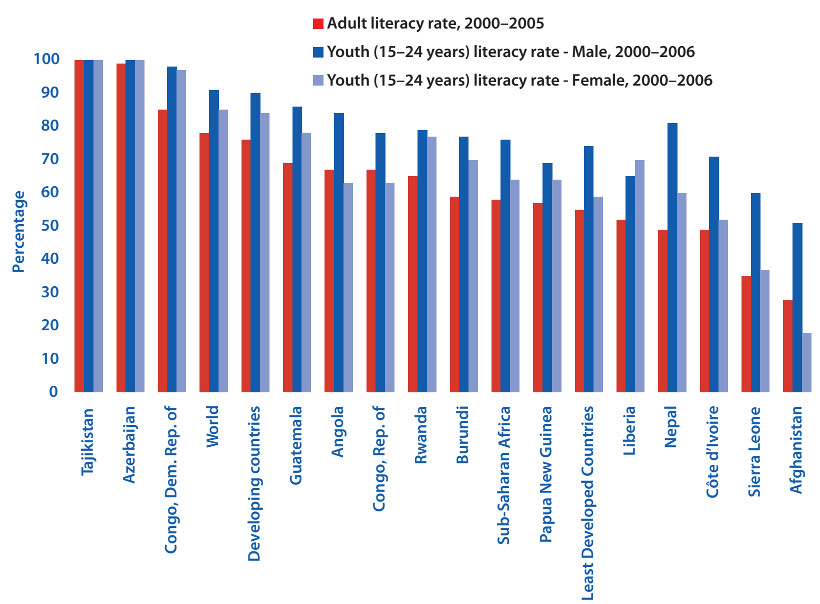
- Small-scale local responses and community-led efforts should be nurtured.
- Initiatives with demonstrated direct developmental effects, such as those which improve access to water and sanitation and those which foster complementarities between large-scale and small-scale projects, should be promoted.

- Interventions should be geared to regions and infrastructure sub-sectors where the local private response has been inadequate, so as not to displace successful indigenous enterprises.
- To the maximum extent possible, materials and labour should be sourced locally to enhance local multiplier effects of infrastructure projects and, ideally, as an instrument for community building. This could be achieved, for instance, by stipulating the technologies to be used in infrastructure programmes.
- The need for conflict sensitivity in any intervention remains paramount. This implies understanding the social and ethnic dynamics that may have contributed to or resulted from the conflict to ensure they are not exacerbated by infrastructure programmes.

3.3 Reinvesting in human capital

The ability of people to take their lives back after war depends significantly on the human capital they embody.[53] Human capital stock—considered as the stock of education, skills and aptitudes embodied in labour—is usually significantly depleted by conflict, and this can undermine the prospects for economic recovery. Hence, reversing the damage and investing in people is an important aspect of post-conflict economic recovery. In rehabilitating post-war human capital, it is important to take into account and address the inequities in societies that may have contributed to conflict dynamics in the first place.

Figure 3.9 **Adult and youth literacy rates in selected countries**



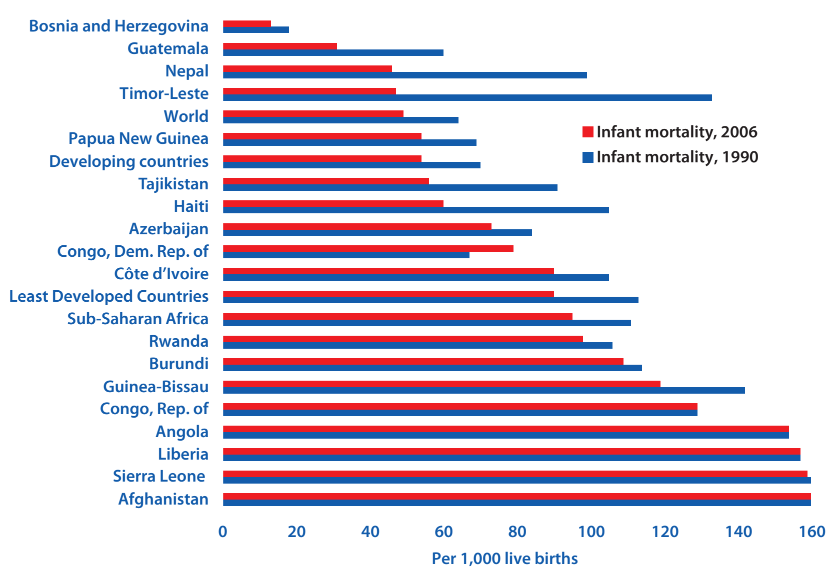
Source: Data from UNICEF, 2008, statistical tables.

Conflict has a negative impact on education in general, although it usually has less of an impact on primary education than on secondary and tertiary education (see Chapter 2). Indeed, in the countries for which data are available, primary school enrolment in post-conflict countries has on average exceeded the median enrolment ratio in non-conflict developing countries as early as the third year after conflict ended.[54] Nonetheless, in many conflict-affected countries, adult literacy rates have remained below the average for developing countries several years after conflict has ended (Figure 3.9).

Secondary and tertiary education levels also begin to recover during the first year of peace, but remain approximately 5–10 percentage points below other developing countries even seven years after the end of war.[55] This lasting effect may be explained by the higher operating, maintenance and opportunity costs[56] associated with secondary and tertiary education for households and communities impoverished by war.[57] Further, these levels of education require more highly qualified teachers who may simply no longer be in the country or even alive.[58]

Some of the investment needs for human capital (re)formation can be met through activities and initiatives that require limited resources and knowledge, as with primary schooling. However, the very low secondary and tertiary education indicators and the predominance of teenagers and young adults among ex-combatants can entail the loss of a generation's human capital. Reintegration programmes could help avoid this loss by providing vocational training, formal education or on-the-job training. Creative ways of providing formal primary education or skills to young people above primary school leaving age have been explored in Northern Uganda, the Somaliland region and Southern Sudan, for instance. So-called 'alternative basic education' initiatives may be particularly relevant for post-conflict countries. These use, for example, radio programming (phone-in programmes, dramas, audience participation), vouchers for educational or vocational training (with options including driving, computing, tailoring, etc.) and accelerated learning schemes (condensing eight years of schooling into four).[59] The decision on which of these interventions receives the most investment should depend on the specific circumstances and local needs.

Figure 3.10 **Infant mortality rates in selected countries**

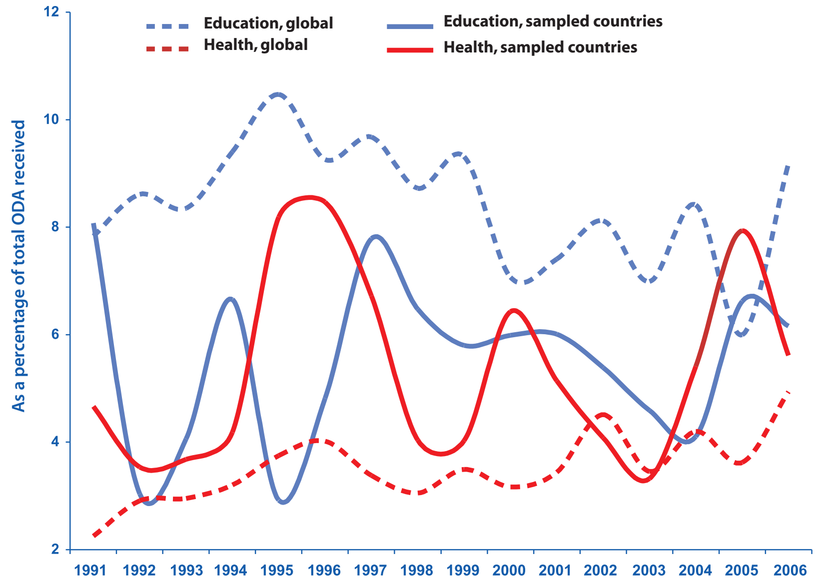


Source: Data from UNICEF, 2008, statistical tables.

In most cases, health indicators remain deplorable for several years after conflict ends, especially among children.[60] Infant mortality rates in Afghanistan, Angola, Liberia and Sierra Leone, among the highest in the world, have hardly improved over the past 15 years as shown in Figure 3.10. Another study[61] of 27 post-conflict countries found that even seven years after the end of war almost eight percent of all infants still died before they reached the age of one (this study actually excluded Afghanistan, Angola, Liberia and Sierra Leone for lack of longitudinal data). In addition, the prevalence of acute malnutrition among under-five-year-old children can be as high as 81 percent in conflict-affected populations, as in the displacement camp of Ame in southern Sudan in 1993.[62]

In contrast, the aforementioned study shows that adult female mortality dropped sharply post-conflict even below the median for non-conflict developing countries of 260 per 100,000 adults.[63] Adult male mortality has tended to fall only slightly (from approximately 320 to 310 per 100,000 adults by the seventh year of enduring peace), a level only slightly higher than the rates observed in non-conflict developing countries (around 300 per 100,000 adults).[64]

Figure 3.11 **ODA allocated to health and education: Global versus sampled post-conflict countries**



Source: OECD, 2008a and the authors' calculations.

As a result, life expectancy at birth has often remained very low in post-conflict countries. In some cases (in the Republic of Congo, Liberia and Rwanda, for example) it stalled at around 45 years between 1970 and 2006 (Chapter 2, Figure 2.5), whereas it increased by 20 percent from 55 to 66 years for developing countries as a whole during the same period.

Funding education and health post conflict

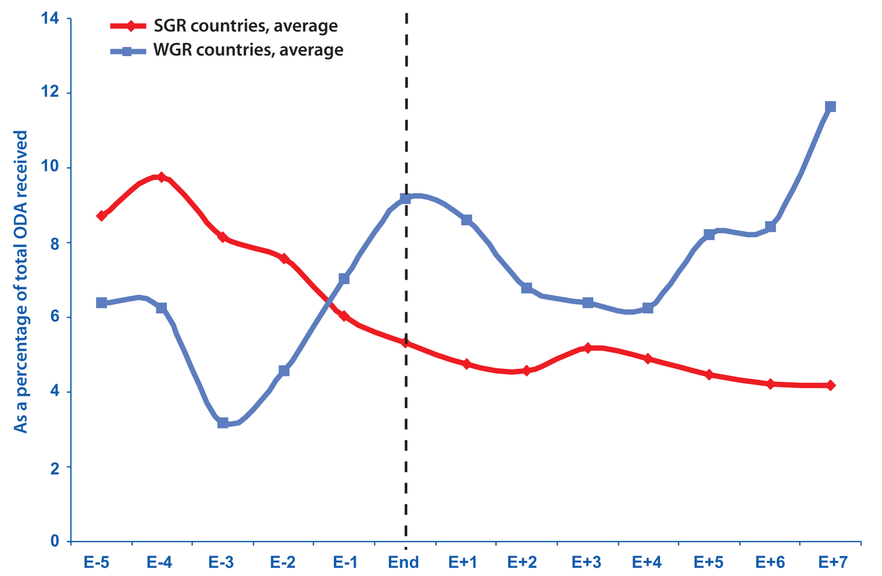
Efforts to support education and health after war have been hampered by several common factors, the most important of which perhaps has been inadequate resources, or their inappropriate timing and use. As discussed earlier in this chapter, the proportion of aid budgets allocated to health and education increased during most of the 1990s. But even then, it remained relatively modest in general in conflict-affected countries in the 1990s and 2000s, averaging only around seven percent of all aid.[65] Analysis of the levels and trends of ODA allocations to the health and education sectors in our 21 sampled conflict countries shows that they differ from the global trends and levels over the past 15 years (Figure 3.11).[66] In comparison to the global figures, more has been dedicated to health and less to education, narrowing if not inverting the difference between both sectoral allocations observed globally. Overall, however, relatively less ODA has been spent on both sectors in these countries than the global average.

In the aftermath of conflict, ODA allocations to education and health differ (Figures 3.12 and 3.13). After conflict, the share of 'health ODA' declines steadily for several years for both groups before it picks up again for the WGR group. The 4 to 5-year drop in the share of ODA allocated to health after conflict might reflect the inevitable withdrawal of humanitarian assistance shortly after war ends. This was the case in Uganda, where relief and rehabilitation funds that initially provided for recurrent health costs (drugs and salaries), were subsequently removed, which then had a negative impact on user rates.[67]

In contrast to health, the average share of ODA going to the education sector for both WGR and SGR groups follows an upward trend starting from a few years before the end of conflict countries (Figure 3.13). It is noteworthy that the SGR countries manage to recover better in spite of significantly lower levels of post-war ODA dedicated to education. This suggests that these low levels do not necessarily constitute a binding constraint to growth.

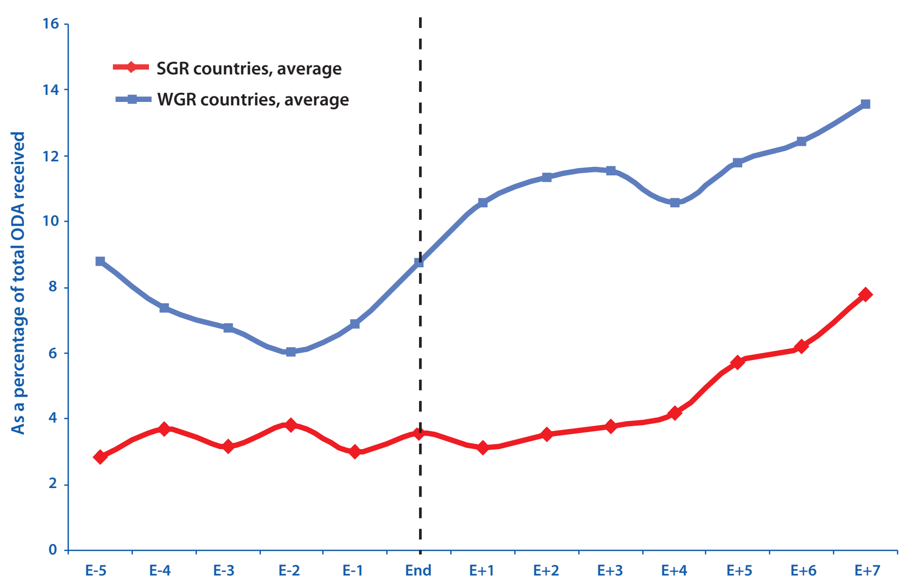
Low public spending on education and health suggests that given the particular hardship imposed by war, both sectors have been under-funded in conflict-affected countries, especially when contrasted with defence expenditure (Figure 3.14).

Figure 3.12 **ODA allocated to health: SGR versus WGR countries (3-year moving average)**



Source: OECD, 2008a and the authors' calculations.

Figure 3.13 **ODA allocated to education: SGR versus WGR countries (3-year moving average)**



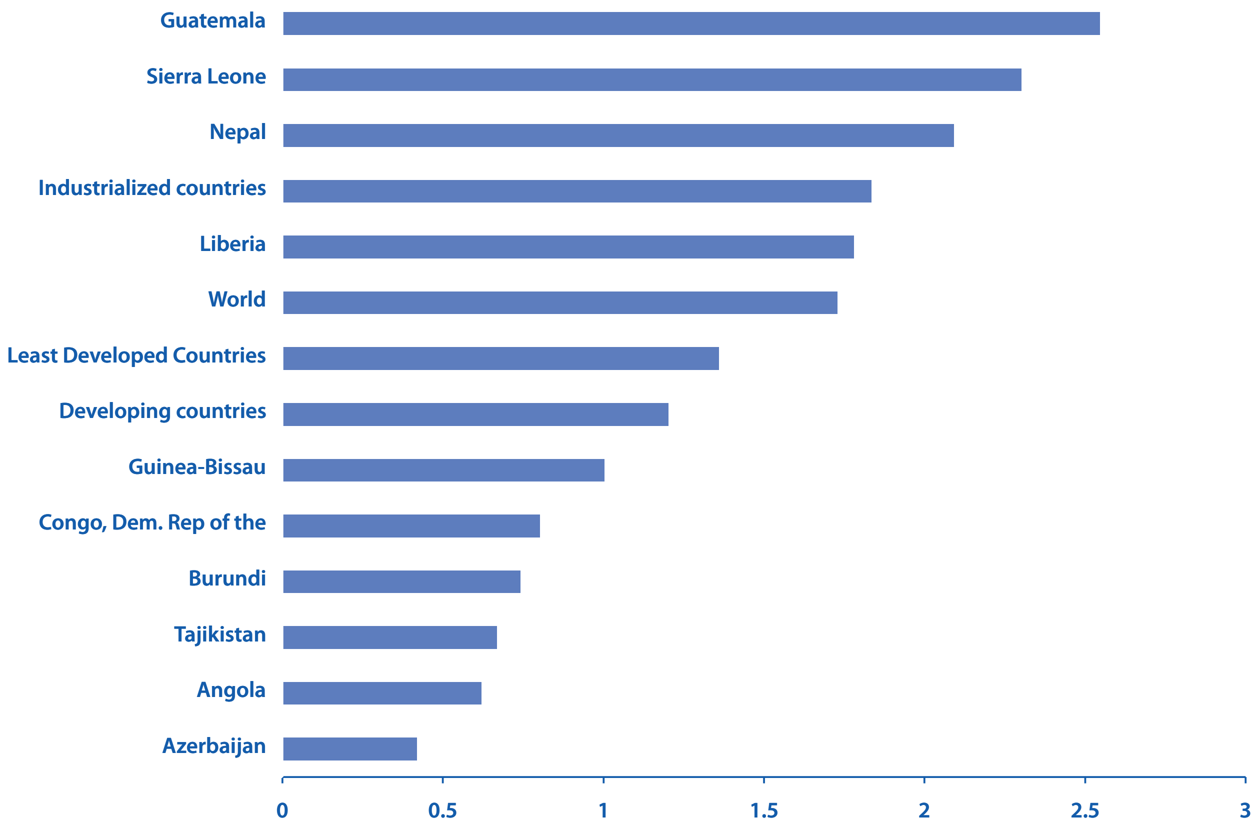
Source: OECD, 2008a and the authors' calculations.

Overall, the evidence points to only limited amounts of ODA and public spending going to education and, particularly, health in post-conflict countries. Significantly, five post-conflict countries (Angola, Azerbaijan, Burundi, the Democratic Republic of the Congo and Tajikistan) spent less on health and education combined (as a proportion of GDP) than they did on military expenditure between 1995 and 2000.

Designing and supporting successful education and health interventions

Experience of successful recovery interventions has shown that at least three key closely related concerns must guide programme design. First, all interventions must abide by the 'do no harm' principle and be particularly sensitive to conflict dynamics.[68] It is critical to avoid exacerbating social tensions in the rehabilitation process. In Bosnia and Herzegovina, for example, control of education was decentralized to the three political entities. On the one hand, this had some positive consequences for the empowerment and cultural recognition of each community. On the other hand, however, the curricula featured separate national histories and religious instruction, thus accentuating divisions between the communities. This also led to some minorities facing problems accessing schools.[69]

Figure 3.14 **Ratio of health and education expenditure to defence expenditure in selected countries, 1995–2000**



Source: OECD, 2008a and the authors' calculations.

Explicit conflict sensitivity has been critical to the successful restoration of health services in some cases.[70] In Mozambique, for instance, the distribution of food and the provision of health services to previously inaccessible areas played an important role in decreasing tensions and restoring freedom of movement. In an attempt to tackle historical imbalances in service provision, initial reconstruction was focused on rural areas and less privileged communities. NGOs were encouraged to revive health services in areas controlled by the Mozambican National Resistance (RENAMO). Further, the retraining of health staff working in RENAMO areas "demonstrated government willingness to build peace and opened the way for the progressive reintegration of rebel areas into a common administration".[71] In Cambodia, health workers from three of the four main factions were integrated into the interim health administration, even in advance of the internationally mandated government.[72]

Indeed, some initiatives can be used as a bridge for peace and reconciliation. Mozambique emphasized education as a peace and community-building instrument. 'Peace education' initiatives provide a range of formal and informal educational activities to inculcate skills, attitudes and values that promoted tolerance, diversity and non-violent approaches to conflict. It has been found that these are most effective if they are part of the national curriculum rather than stand-alone initiatives promoted by outsiders, and also if they are linked to wider peacebuilding activities in communities.[73] Education programmes have also provided 'quick wins' in the post-conflict environment, as the reconstruction of schools and the return of children can be one of the most effective ways to demonstrate a peace dividend to the local population and to help the government rebuild the social contract. In the same spirit, accelerated learning programmes have been developed in Liberia, Sierra Leone and Uganda after their conflicts ended.[74]

Second, even when conflict recurrence is not a central concern, ensuring the localization and context appropriateness of interventions is still important, and often fruitful. In Timor-Leste, in the early 2000s for example, the school year and agricultural cycles were coordinated so that children could assist their parents while still attending school.[75] Additionnally, school fees and the requirement to wear a school uniform, which tend to exclude poor children, were waived as part of a broader pro-poor agenda.[76] In combination with the World Food Programme's (WFP) school feeding programme, these policies fostered inclusiveness and resulted in an increase in primary school attendance, especially among the poor, girls and children in rural areas.[77]

> The reconstruction of schools and the return of children can be one of the most effective ways to demonstrate a peace dividend to the local population and to help the government rebuild the social contract.

Context sensitivity is obviously critical when it comes to mental health; but this dimension has yet to be fully recognized. In much of sub-Saharan Africa, for instance, post-conflict mental health is approached via 'social healing', which entails traditional reconciliation processes, including the performance of symbolic rites within the community.[78] When psychological assistance is provided within external assistance programmes, it is often according to Western rather than indigenous norms. Post-conflict truth commissions also go some way toward social healing. However, many victims of violence indicate that they would prefer some direct contact with the perpetrators, rather than simply having an official audience to whom they recount their suffering.[79]

Third, the end of conflict often creates an opportunity to redress pre-war distortions and inequities, notably those associated with horizontal and gender inequalities. For instance, post-conflict education programmes and school curricula must avoid the simple reproduction of traditional gender roles. Youth training programmes customarily give relatively less attention to females than males. Even when girls enter vocational courses, they are often groomed into gender stereotypes and trained for trades with a lower earning potential than those reserved for males. There are exceptions, however, that show the potential of a different approach. In Eritrea, for example, large numbers of women were able to find employment in the construction sector during post-war reconstruction. They developed a reputation for being more reliable, and generally producing higher quality outputs, than their male counterparts.[80]

In health, similarly, it has been observed that "…in most cases, many of the weaknesses observed in post-conflict health sectors actually pre-date the crisis".[81] Uganda's post-conflict rehabilitation effort has been cited, for instance, as not fully addressing the underlying pre-war systemic horizontal inequalities in health service provision between the northern and southern districts, as well as between urban and rural areas.[82]

There are, however, examples of reasonably successful interventions for the delivery of essential health services in a way that focuses on the needs of the most vulnerable. In Afghanistan, a basic health services package helped restore services "that in some areas ha[d] not been available for more than a decade".[83] In Mozambique, an expanded programme on immunization was provided for children under five, tetanus immunization was provided for pregnant women and vitamin A supplements were given to high-risk populations.[84] Addressing systemic flaws may also entail introducing new management and procurement systems, such as for supplying medicinal drugs. In the Democratic Republic of the Congo, a drug supply system "which started small in order to respond to the collapse of general supply mechanisms has become a central element in the recovery of the health sector, and a model to be considered outside the [country]".[85]

Ensuring conflict and context sensitivity and redressing historical inequities can only be achieved on the basis of a sound and early analysis of local realities. Whenever possible, this analysis must start immediately with—or even before—the transition from war to peace, as was the case in the Democratic Republic of the Congo,[86] Mozambique[87] and Timor-Leste.[88] Related to this, the most effective and sustainable external interventions are rooted in and capitalize on local capacities and initiatives.[89] When possible, engaging with and supporting the state has been critical to many such successes, as was the case in Mozambique and Timor-Leste. However, especially when the state's capacity is weak or its legitimacy is still contested, it also entails working with other local actors including community-based organizations.[90]

> Ensuring conflict and context sensitivity and redressing historical inequities can only be achieved on the basis of a sound and early analysis of local realities.

Policy implications

In reconstituting human capital after conflict, four main policy considerations may be identified.

- First, rehabilitation should aim to reform rather than merely restore pre-existing systems, following a rigorous analysis of their pre-war flaws and distortions. This will typically require carrying out in-depth needs assessments very early, if possible even before the formal end of hostilities.[91] Education and health sectors, by their nature, greatly shape and are influenced by social norms and interactions. As such, the overarching need for conflict sensitivity in all assistance programmes and projects is particularly acute for these sectors.
- Second, it is important that new programmes and initiatives aimed at restoring or supporting basic service delivery (mainly primary education and essential healthcare needs) build, in the first instance, on local knowledge and efforts.
- Third, whether the health or education sector should be given priority must depend on the state of each system, the war damage suffered and the needs of the economy.
- Fourth, restoring and improving the economic infrastructure, though important, should not be at the expense of health and education. Ideally, donor funding should be increased in absolute terms for both post-conflict infrastructure and social sector rehabilitation.

3.4 Reintegrating ex-combatants and special groups

War creates a number of special groups whose reintegration into the larger community is critical, because of either their greater vulnerability or the potential for their neglect to lead to conflict relapse. These groups include combatants (male, female and child soldiers), dependants of combatants and, in the larger civilian population, IDPs and returning refugees. When war ends, some members of these groups are able to reinsert themselves without help, but the vast majority require some tailored assistance to return to normal life, rejoin the labour force and contribute to peace and national recovery. Ex-combatants, for instance, have traditionally benefited from demobilization, disarmament and reintegration (DDR) programmes. The following sections explain these programmes and discuss how their benefits can be extended to other special groups and to the larger community.

Objectives and modalities of reintegration programmes

DDR programmes are assigned the ambitious objective of serving both as peacebuilding and economic recovery instruments in the aftermath of war. Their disarmament and demobilization phases contribute directly to consolidating peace, while their reintegration activities—the primary objective of which is to foster economy activity—provide civilian occupations that help create a sense of normalcy and routine and cultivate social stability.[92]

DDR programmes have become a cornerstone of peace and recovery packages designed by external partners. They were first developed in Central America in 1989 and have since then figured prominently in several conflict countries with a strong United Nations presence, notably in Africa and Asia in recent years.[93] There were 19 DDR programmes active worldwide in 2007 (Table 3.1). These have been subject to various appraisals and standardization efforts.[94] While these efforts have helped to highlight the critical issues, their implications have yet to be fully put into practice.

There is usually a standard set of actions involved in DDR programmes, even if the content and modalities often vary. There were significant differences, for instance, between the programmes run in Mozambique on the one hand and Liberia and Sierra Leone on the other, reflecting the fact that in the former there was a functioning government at the end of conflict. In the other two countries, establishing a viable government was part of the immediate post-war challenge.

The disarmament phase typically includes collecting, documenting and destroying weapons.[95] Demobilization involves the encampment, verification of status and registration of ex-combatants. This is sometimes accompanied by the provision of so-called transitional support to cover the immediate needs of combatants and their dependents and to help ease their transition from military to civilian life.[96] The reintegration phase[97] refers to the process by which ex-combatants and other beneficiaries acquire civilian status and (hopefully) gain sustainable livelihoods and income.[98] Different services and opportunities are offered in support of that objective, including vocational skills training, apprenticeships, formal education, counselling and medical services, financial and start-up support for agriculture and alternative livelihoods, tools, subsistence and safety allowances and temporary employment opportunities. The menu of training options may include information technology, carpentry, masonry, tailoring, driving and auto mechanics, for instance. Moreover, reintegration programmes often promise support in finding or creating employment as part of the country's broader recovery and development strategies.[99] In general, participants can choose their preferred option. In countries with significant numbers of child soldiers, or where the conflict lasted so long that even the older soldiers have only a limited education, the formal schooling option is quite popular (but is often not feasible for all of them).[100]

It is important to keep the gap between these three stages to the minimum feasible. This is particularly because "the transition from demobilization to reintegration can be a challenging time for ex-combatants struggling to come to terms with their new identity and role in the society".[101] Short-term

Table 3.1 **Main ongoing DDR programmes (active in 2007)**

Country	Executive body	Period (beginning and ending dates, month/year)	Combatants to be demobilized		Programmes for vulnerable groups			Total budget (million US $s)	Donor formula		
			SAF	AOG	Ch	W	D		WB	MF	C
Afghanistan	M	10/03 to 12/08	35,000	63,000	●			141.2			●
Angola	N	08/02 to ?	33,000	105,000	●	●	●	255.8		●	
Burundi	M	12/04 to 12/08	41,000	37,000	●		●	84.4	●	●	
Central African Republic	M	12/04 to 04/07	n/a	7,565	●			13.3		●	
Chad	N	12/05 to 12/10	9,000	n/a				10	●		●
Colombia	N	11/03 to 08/06	n/a	31,761	●			302.6			●
Congo, Republic of	M	12/05 to 12/08	n/a	30,000	●	●		25	●		●
Côte d'Ivoire	M	12/08 to ?	5,000	35,000	●	●		40	●		
Congo, Democratic Republic of the	M	01/04 to 12/07	23,000	127,000	●	●		200	●	●	
Eritrea	N	10/02 to ?	200,000			●	●	198	●	●	●
Haiti	M	08/06 to ?	n/a	6,000	●			50.1		●	
Indonesia (Aceh)	N	09/05 to 12/09	n/a	5,000	●			170		●	
Liberia	M	12/03 to 06/08	12,000	107,000	●	●		71		●	
Nepal	M	12/06 to ?	n/a	19,602	●			18.4			●
Niger	Int	03/06 to 12/07	n/a	3,160		●		2.4			●
Rwanda	N	12/01 to ?	20,000	16,000	●	●	●	62.5	●	●	●
Somalia	M	12/05 to ?	n/a	53,000	●			32.8		●	●
Sudan	M	09/05 to 09/12	n/a	24,500	●	●	●	85.4		●	●
Uganda	N	01/00 to 12/08	n/a	16,245	●	●		6.74		●	
Total (19)			**343,000**	**760,721**	**16**	**10**	**5**	**1,896.4**	**7**	**12**	**10**

Acronyms and abbreviations: N – national, M – mixed, Int – international, SAF – State armed forces; OAG – other armed groups; Ch – child soldiers; W – women combatants; D – disabled combatants; WB – World Bank; MF – multinational funds; C – country funds

Source: Camarés and Sanz, 2008, Annex 1, p. 35.

interventions or quick-impact projects can help smooth this transition, but they should not become substitutes for longer term reintegration and recovery programmes.[102]

Multi-donor trust funds (MTDFs) are the favoured financing instrument used by the donor community[103] to pool and disburse the funds provided to DDR programmes.[104] This instrument allows for greater flexibility, harmonization and alignment.[105] In addition, however, substantial segments of DDR programmes have historically been supported or managed by a wide range of donors and NGOs, offering different kinds of support programmes on a large scale.[106] In Liberia, for instance, various development partners offered different packages of support for reintegration, and combatants were largely free to choose from them. For example, the European Commission supported two vocational training projects implemented by local NGOs. Between October 2004 and October 2005, the projects trained around 2,600 ex-combatants in different trade areas across the country. Another European Commission project (the Peace and Stabilization Project with the Danish Refugee Council) targeted both ex-combatants and non-combatants (IDPs, returnees and the resident population) to ease immediate frustrations and keep people away from criminal activities. The project injected more than half a million dollars into the local community. Similarly, the Liberia Community Infrastructure Project, funded by the United States Agency for International Development (USAID) and implemented by Development Alternative Inc. (DAI), targeted an estimated 30,000 individuals, of whom 18,000 were ex-combatants and 12,000 were war-affected civilians.[107]

Key issues and considerations

This section describes four key issues for setting up and implementing DDR programmes. These are the targeting and eligibility of potential beneficiaries; the adequacy and sustainability of programmes; implementing activities and coordinating actors; and the importance of fostering ownership, encouraging participation and building the capacity of people and organizations.

Targeting and eligibility

Although DDR programmes are, by definition, aimed at ex-combatants, a critical challenge is determining the extent to which they should be directed solely at this group. Granting ex-combatants special treatment may arouse hostility within the larger community, which often sees this group as having been most responsible for the conflict. On the other hand, the individuals and the groups who have been trained and institutionalized into violence do need special attention to reduce the risk of conflict recurrence.

As in the Liberian case mentioned above, complementary programmes are sometimes initiated to cater to war-affected communities and unemployed non-combatants. This reflects the growing consensus that it is essential to find the right balance between addressing ex-combatants' specific needs and those of their larger communities. Certainly, in the context of longer term integration, experience points to the importance of moving from targeted to community-wide programmes as soon as possible.[108]

Even within the ex-combatant community, DDR programmes often do not adequately consider female and child combatants. While the ex-combatant population is typically predominantly adult male, there have been significant numbers of child soldiers and female combatants in places such as Liberia, Sierra Leone and Uganda.[109] Their needs are often neglected. For example, disarmament criteria that focus on the possession of arms or ammunition tend to exclude female combatants because they are less likely to have a weapon of their own for various reasons.[110] In addition, special arrangements are often required for the dependants of ex-combatants, who are principally coerced wives, sex workers ('camp followers') and children, all of whom rely entirely on the ex-combatants for their livelihoods and safety. Accordingly, they require different orientation arrangements, including mechanisms to help break the dependency bond.

In Sierra Leone, for instance, no special programmes or arrangements were initiated for women ex-combatants[111] (an estimated 7.5 percent of fighters), or for those who had been abducted by the different fighting factions and abused in various ways. On the other hand, with an estimated 12 percent of combatants under 18 years of age, an early decision was taken to provide separate, direct assistance to child ex-combatants under the auspices of the United Nations Children's Fund (UNICEF).[112]

Disabled and war-wounded combatants constitute one group of combatants that are extremely difficult to reach and reintegrate. The few specific efforts made for such people have proved rather promising. For instance, a UNDP pilot project launched in November 2002 in the Democratic Republic of the Congo assisted 1,870 war-wounded combatants.[113] As shown in table 3.1, specific assistance for disabled soldiers was part of only 5 of the 19 programmes surveyed – in Angola, Burundi, Eritrea, Rwanda and Sudan.

Beyond meeting the needs of those who have been directly active in conflict, reintegration should also address the war-induced vulnerability of other groups. Indeed, reintegration ought also to provide to the larger communities the tools, skills and support that enable people to 'take their lives back' and to contribute to recovery. The potential of returning refugees and IDPs to support the recovery process depends partly on the extent to which their human capital has been depleted or replenished whilst living away from home, which in turn depends on where they have been (in camps, for instance or reasonably settled within a host community) and for how long. Some refugee and IDP camps provide some education and training programmes and some encourage economic activity around camps and in the hosting communities.

Beyond meeting the needs of those who have been directly active in conflict, reintegration should also address the war-induced vulnerability of other groups.

Sierra Leone offers a picture of some the challenges of reintegrating returnees and IDPs. Between 2000 and 2004, UNHCR supported the repatriation and reintegration of some 272,000 Sierra Leonean refugees returning from Guinea and Liberia.[114] As is the usual practice, these returnees were given a food and a non-food package as well as some cash for transportation to their homes. It was agreed with the government that similar protection and assistance standards and criteria would be applied to both returning refugees (under UNHCR auspices) and returning IDPs (under government auspices). Since many communities were made up of almost an equal number of both, the standardization seemed fair and it minimized friction. Unfortunately, the outcome was that the lower government standards set for IDP reintegration assistance were applied to both groups. Food rations were provided for only two months rather than for six months as originally planned. This was subsequently increased to four months, but that was still far short of what was needed to tide over returnees until their first harvests. In comparison, between 1980 and 2000, UNHCR had provided Laotian returnees with 18–24 months worth of rice and rations or cash grants.[115] For non-food items too, adopting the government's standard in Sierra Leone meant that the returning refugees received assistance that was less than the UNHCR repatriation packages distributed in other operations. The package (plastic sheets, kitchen sets, water cans, hurricane lamps, soap and other goods) was inadequate in the devastated areas of return where sufficient shelter was seriously lacking.

The UNHCR evaluation of this operation expressed concern about the inability to provide a proper package to the IDPs (and therefore to the returnees). It pointed out that, in general, the global variation in assistance packages may be due to political factors such as the visibility of operations and the funding priorities and vested interests of key players on the international scene.[116] It would seem that the level of actual needs was a secondary consideration. It recommended that, as a matter of princi-

Construction of a rural road using a hand-operated roller near Lugela, Mozambique, 2001 (Neil Cooper/Panos Pictures)

ple, UNHCR ensure that the requirement of comparability in assistance to IDPs and returnees does not result in lowering standards below the normal minimum.[117]

In general, many war-torn countries are hard pressed to absorb large numbers of returning refugees. Often, refugee repatriation merely swells the size of IDPs, placing a strain on both economic recovery and social stability. Some refugees return to their homes and can resume their previous activities, but others are unable to do so and thus become IDPs. Assistance to returning refugees and IDPs, as in DDR programmes, must be aligned as much as possible with broader employment, livelihoods and income-generating policies and programmes. Experience indicates that well-designed DDR programmes can enhance the benefits of these broader programmes. Again, this underscores the importance of planning ahead and of investing in a deep understanding of the capacities and needs on the ground.

Adequacy and sustainability

A second key consideration is how to ensure that DDR programmes are adapted to the characteristics and long-term needs of their beneficiaries, both at the individual and community levels. For example, while rank and file ex-combatants are typically poor, uneducated and poorly skilled, there are significant exceptions such as in Ethiopia, where ex-soldiers were found to have much higher educational qualifications than non-soldiers.[118] DDR programmes should ideally reflect these diversities as well as the context in which conflict ends.

A larger challenge faced by many DDR programmes is how to capture and respond to local needs and market conditions.[119] Given the security environment and the associated collapse of most markets, it is usually extremely difficult to undertake serious labour demand analysis. For example, in Sierra Leone many ex-combatants were trained for tailoring, tie dying and soap making, whereas demand for these goods and services was low.[120] In Kosovo, similarly, almost half of ex-combatants who participated in the DDR programme were trained to be car mechanics, clearly beyond the needs of the market.[121] In Liberia, out of the 40,000 ex-combatants asking for formal education, 10,000 wanted computer training. In the end only 4,722 were trained in this area after it was determined that the market was unlikely to absorb a larger number.[122]

Post-training support and assistance for entering business are two areas where DDR programmes have also been criticized.[123] In a survey of more than 1,000 ex-combatants in Sierra Leone, over 75 percent said the training they received had prepared them well for their work and more than 90 percent felt they had been taught skills that were in demand. Nevertheless, when asked for suggestions for improving DDR, 54 percent recommended more support in finding jobs after training, 47 percent said the training period should have been longer and 30 percent identified a need for support to start small businesses.[124]

Cash-for-work schemes that provide short-term manual employment as part of or in transition to reintegration have been criticized for being too short term in their outlook and for not equipping trainees with the appropriate skills to be integrated into the job market.[125] These schemes can generate a significant infusion of money into the local economy (as they typically pay one or two dollars per day)[126] and they keep people busy in often volatile and dangerous situations.[127] However, they do not generally result directly in reintegration.

> The discrepancy between reintegration programmes and the local economy's capacity to absorb labour underscores the need for specific interventions to support livelihoods, generate employment and create an enabling economic environment.

While DDR programmes are usually not fully aligned to the needs of local labour markets, it is important to acknowledge the fundamentally dysfunctional nature of these markets after war. Youth programmes in Sierra Leone, for example, were aimed at moving people into the formal economy when the employment market was capable of absorbing, at most, only 5 percent of trained young people from these programmes in addition to the 10 percent already in formal employment.[128] Graduates of training programmes are therefore often disappointed and frustrated when they cannot find work, especially since optimism on entering the programme is usually very high. In Kosovo, almost all ex-combatants believed they would be employed after demilitarization, even though almost 30 percent of them had been unemployed before joining the Kosovo Liberation Army.[129] A similar story has been found in Liberia.[130] While people can be trained in carpentry, mechanics or small business management, their chance of sustainable employment is heavily contingent on the state of the market and the health of the local economy.[131] That discrepancy between reintegration programmes and the local economy's capacity to absorb labour continues to be an obstacle to economic recovery, and underscores the need for specific interventions to support livelihoods, employment generation and the creation of an enabling economic environment.

Coordination and implementation

A third challenge in DDR programmes is coordinating myriad players by a government whose capacity has been seriously devastated by the conflict. In Liberia, DDR activities were financed through a US$70 million UNDP-managed trust fund and by so-called 'parallel programmes'.[132] These parallel programmes were financed from outside the trust fund by bilateral and multilateral agencies,[133] in addition to their contributions to the fund, to support projects implemented by NGOs and sub-contractors. The programmes adopted various approaches, including training, cash-for-work programmes and community-based initiatives, which provided short-term employment to war-affected populations.[134] However, the existence of two DDR vehicles proved challenging for coordination, coherence and effectiveness. It was difficult to monitor participation across schemes, to identify individuals who had registered with more than one institution in the hope of benefiting from several programmes. There was evidence, for instance, of dual registrations in the programmes supported by the European Union and USAID. Perhaps more critically, some ex-combatants dropped out of vocational training programmes to participate in short-term programmes. Later, a significant number of those who had chosen 'cash-for-work' rather than training programmes returned to the DDR coordination centre claiming not to have been successfully reintegrated. UNDP estimated in mid-2007 (more than two years after the disarmament process was completed) that there were still about 9,000 ex-combatants who needed to be assisted with reintegration. A key conclusion of an evaluation undertaken for the European Commission was that "there are obvious and significant issues of inconsistency in the overall implementation of the [DDR] Programme given the various parallel Reintegration Programmes". This led to the recommendation that "projects be implemented under one administrative layer and greater programme policy consistency (…) ensured".[135]

Fostering ownership, participation and capacity building

Perhaps the biggest challenge of all is how to foster effective local participation and ownership of DDR programmes. Massive donor involvement is generally necessary to fund DDR programmes. Yet, experience has shown that it is possible to increase national ownership and broad-based participation and to place greater emphasis on local capacity building than is commonly the case, and that such programmes are more likely to be successful and sustainable.[136] In Afghanistan, for instance, there has been an explicit aim to transfer responsibility for DDR to the government as a means of fostering ownership and strengthening local capacities.[137]

Stakeholder and community participation in the planning phase can also be enhanced in several ways, although time constraints can limit the depth of consultation, especially in the early stages of a DDR programme.[138] Lessons from Sierra Leone and Tajikistan suggest that dialogue forums allow all parties to discuss and contribute to shaping programme design. Even in places where central government authority was weak, such as in the Somaliland region, community participation in DDR planning has been very helpful in promoting national ownership of the process and more effective use of programme resources at the local level. In Sierra Leone, forums were set up with UNDP support to discuss demobilization and reintegration within an environment of reconciliation. These forums enabled the government, the army, civil society organizations, donors and religious and traditional leaders to develop a framework for national capacity building in the context of peacebuilding. This process sought to lessen tensions by increasing transparency, allaying anxieties and clarifying intentions about military force and political activities. It served as the basis for the DDR programme and for restructuring the army.

Greater ownership of the policy-making process can also be achieved through establishing a temporary multi-actor national body that includes relevant government officials (military and civilian) and representatives from business, labour, civil society and religious groups. In many cases, this has taken the form of a national commission for DDR, whose role may be given added authority by being mandated through the peace agreement, as was the case in the 1996 Guatemala Peace Accord. Among the 19 DDR programmes in operation in 2006, 13 involved a national commission, with the military component often playing a predominant role.[139]

Policy implications

Five key principles emerge regarding programme design and implementation that could guide future DDR interventions.

- First, the design of DDR programmes should be based on a sound assessment of the local context—political, economical and cultural. It is particularly important that the targeting of special groups be context sensitive. Local communities and community-based organizations should be very actively involved in the design process, beyond being occasional sub-contractors.
- Second, DDR programmes must take a longer term view than has been the case historically. The full reintegration of ex-combatants depends on how quickly the economy can expand to provide the demand for labour. It is particularly important, therefore, that training programmes be designed creatively to anticipate skills that will be needed as the economy rebounds, rather than those that reflect the current market profile or the (understandably) uninformed desires of ex-combatants. Moreover, training could be longer and more rigorous, and graduates could be given support over a longer period to find or create jobs.
- Third, wherever possible, basic services provided to ex-combatants should be extended to the communities around the demobilization camps. For instance, integrating the provision of healthcare services into the local community system would improve the quality of healthcare broadly and could serve to ease tensions between former combatants and the community at large.
- Fourth, a clear distinction should be made between activities and programmes designed to support the integration of ex-combatants and those that merely keep them off the streets temporarily. As much as possible, temporary employment schemes should be extended to the larger population. Specialized training programmes, which take into account the possible influence of war trauma, should continue to be provided to ex-combatants. However, it would often help to ease social tensions if parallel programmes of assistance in upgrading skills and finding employment could be provided to the larger civilian population.
- Fifth, better coordination among the main providers of DDR financial support is essential. This would enable a clearer distinction between activities specifically supportive of ex-combatants and those that are more generally indicated by the many challenges to recovery in post-conflict situations.

3.5 Securing economic opportunities and creating jobs

Successful recovery is one that generates and sustains the domestic leadership in economic, employment and income growth. Rapid recovery of employment and livelihoods helps reduce the probability of conflict recurring and ultimately saves on outlays for security and crime prevention. Employment programmes are especially important in post-conflict settings for several reasons.[140] First, ex-combatants consistently say their top priority is getting a job. Also, regular work in civilian jobs helps create a sense of normalcy and routine, which contributes to social stability. Furthermore, civilian employment helps ex-combatants recover more 'normal' social and emotional networks, which were lost while they were in a military unit. Moreover, public employment provides the transition solution as private employment depends on recovery having gained some momentum.

> Rapid recovery of employment and livelihoods helps reduce the probability of conflict recurring and ultimately saves on outlays for security and crime prevention.

Fostering jobs and livelihoods in the immediate aftermath of war must be an economic and political imperative for public policy and donor interventions. The importance of employment is reflected in the first allocations from the newly established United Nations Peacebuilding Fund (PBF). Money has been assigned to Burundi, Liberia and Sierra Leone, and employment generation was a key priority in the submissions from all three countries. The United Nations Peacebuilding Commission recalled that in Sierra Leone "marginalization and political exclusion of youth was identified by the Truth and Reconciliation Commission as one of the root causes of the civil war".[141] In Bosnia and Herzegovina, job creation was a priority of the 'Jobs and Justice' agenda that the administration agreed with the IMF, the World Bank and the European Union—with a goal of 60,000 new private sector jobs by the end of 2004.[142]

However, post-conflict countries face very severe challenges providing jobs and restoring livelihoods. Economic reforms intended to create macroeconomic stability and fiscal sustainability may be conducive to growth and employment in the long run; but they are often weak on employment creation in the short to medium term. Policy conservatism can be detrimental to employment generation, which is necessary to absorb demobilized combatants. In Mozambique, for instance, NGO workers criticized the post-war structural adjustment programmes on that basis.[143]

One of the greatest challenges is constructively employing a large number of young people. They are likely to be ex-combatants and many could turn to violent crime as part of an organized rebel group or gang. The post-conflict rise of gang violence in Guatemala that quickly spread to other neighbouring countries demonstrates what can go wrong if the special needs of young men in particular are not addressed. Unfortunately, young men with a history of violent behaviour, such as combat, generally face multiple obstacles to employment (not least of which may be their history of violence). Other problems may include illiteracy, psychological problems, lack of work experience and weak social, family and community ties.

The UN's three-track approach to employment creation

As part of the new priority assigned to post-conflict employment, the United Nations Secretary-General recently commissioned a system-wide policy paper on the subject. The report, prepared with broad participation across the system, proposes three distinct but interlinked tracks of employment policies.[144]

The first track focuses on war-affected and vulnerable individuals. It aims to consolidate security and stability with high-visibility, labour-intensive public work programmes as a means to provide temporary jobs, strengthen local skills and rebuild economic and social infrastructures. It contains short-term responses like emergency employment schemes and basic start-up grants, and it targets primarily (but not exclusively) conflict-affected individuals, such as youths and ex-combatants, who are at a high risk of relapsing into violence. These programmes are often accompanied by short-cycle training programmes.

In Sierra Leone, for example, the United Nations Mission in Sierra Leone (UNAMSIL) employed ex-combatants to build roads as part of high-visibility and quick-impact projects to give credibility to peacebuilding.[145] In Mozambique, a feeder road programme began even before conflict ended and was scaled up rapidly when it did end. It provided eight million worker-days of employment for 40,000 people, and rebuilt roads vital to the recovery of the country's rural agricultural economy.[146] In Sri Lanka, a programme supported by UNDP provided building materials to displaced persons and paid them to build their own houses. Extending this, a small community finance association was later set up to fund small businesses and recreate livelihoods.[147]

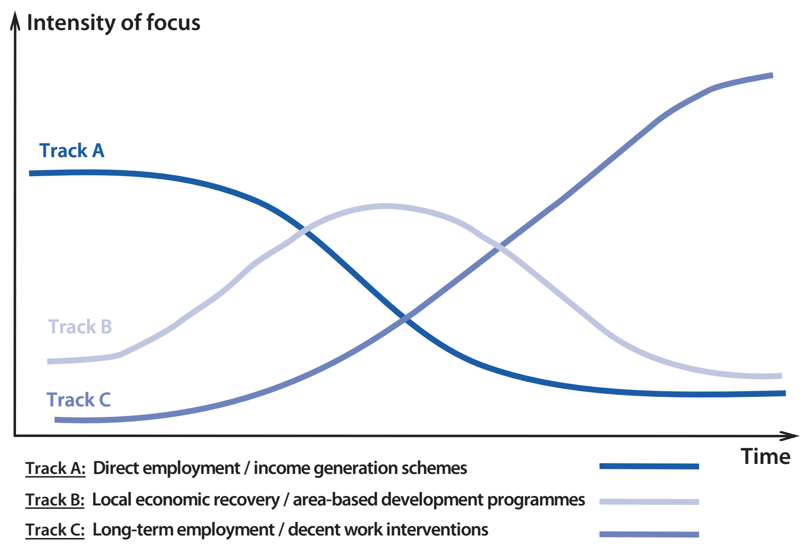
Ideally, public work programmes should use local capacities and inputs rather than imported ones in order to stimulate the economy in addition to providing work. They should also strive for lasting socioeconomic benefits.[148] Contracts tendered to local organizations, associations and firms can help build local skills and knowledge and can also foster local enterprise capacities. Activities amenable to this approach include irrigation projects with a focus on smallholder farmers, water, sanitation and solid waste management in urban and rural areas, feeder roads and rural access infrastructure, and the reconstruction or rehabilitation of public buildings.[149]

> Ideally, public work programmes should use local capacities and inputs rather than imported ones in order to stimulate the economy in addition to providing work.

The second track focuses on communities and is aimed at building labour demand by fostering local economic recovery. This entails investments in socioeconomic infrastructure and local institutions, restoring the natural resource base and rebuilding local government capacity. It is also an opportunity to assist in the introduction of value-adding, income-generating activities, such as the cultivation of high-value crops, agri-business and food processing. These community-based or livelihood-based initiatives also seek to find solutions to the serious challenges faced or posed by the economic activities (mostly informal, sometimes criminal) inherited from the conflict era.

The third track is wider in scope and aims at long-term employment creation and provision of decent work at the macro-level. This includes interventions geared towards changing industrial structures, nurturing the local private sector and labour markets, inducing foreign investment and strengthening intersectoral linkages. It also involves fostering social dialogue to define by consensus the 'rules of the game', including addressing sensitive issues like human rights, gender equality and protection for marginalized groups. It can begin immediately after conflict ends and be intensified with increased stability. One of the major aims of the whole process is to encourage a transition from aid-supported employment to unsubsidized private and public sector job growth. Figure 3.15 illustrates how the priorities of the three tracks cover an increasingly wider target group.

Figure 3.15 **Dimensions of a post-conflict employment policy**



Note: 'Intensity of focus' is both qualitative and quantitative, denoting the extent of policy and programme commitment to each avenue for employment creation. It capures the idea that over time emphasis shifts from one track to another as the economy returns to 'normalcy'.

Source: UNDP and ILO, 2008.

Enabling private investment and entrepreneurship includes removing obstacles to doing business by, for example, clarifying property rights, simplifying tax and license systems and making tax systems at every level more transparent and uniform. Wherever possible, foreign and local business should be accorded equal treatment. Legislation aimed at businesses and the self-employed could include provisions to simplify tax regimes, for the enforcement of contracts and for property rights. Such legislation is often needed to remove barriers to business entry and exit, and to enable access to information technologies. Over the longer term, these policies can help 'formalize' the informal sector by making the evasion of rules and regulations less beneficial, thus improving the quality of jobs in a manner consistent with decent work and safe workplaces.

Area-based development approaches to livelihood restoration

A significant feature of war is that it often creates chronic poverty for many households.[150] Livelihood interventions in these circumstances must be particularly innovative to enable these households to escape the poverty trap. In agricultural areas, livelihood programmes commonly distribute seeds, pesticides, fertilizers and tools. However, some very interesting interventions have provided larger capital goods directly. For example, in Terekaka, southern Sudan, between 2001 and 2002 the provision of a fibreglass boat with an outboard motor enabled agro-pastoralists, who had lost most of their cattle when displaced by war, to diversify their livelihoods.[151] In North Kivu, eastern Democratic Republic of the Congo, where cattle were looted or killed and cheese making and abattoirs were no longer productive, a local NGO purchased goats and started a rotation programme.[152]

Outside agriculture, livelihood programmes often seek to train individuals in new trades to expand their options. There may be some room, as indicated above, to promote new income-generating activities that enhance the value chain, such as food processing. However, as a recent report recommends,[153] there is considerable merit in starting with a focus on rehabilitating competencies, activities and sectors that were present before war, rather than embarking on riskier new initiatives. It is usually more cost effective to capitalize on and complement what already exists, identifying "where people are, what they have and what their needs and interests are".[154]

This is the basic premise of community-driven development and area-based development. In many cases such initiatives have brought development programmes closer to the circumstances and needs of poor people. Success lies in ensuring that interventions are sensitive to the complex and specific environment and dynamics that emerge from conflict. Area-based development schemes (such as the Central American programme described in Box 3.2) seek to reactivate the local economy through three types of interventions.

- First, they seek to strengthen local governance mechanisms and social capital, including by nurturing providers of business services and other services and by building the capacity of community-based institutions to absorb and manage a resource surge.
- Second, they promote complementary dispute resolution programmes, including through participatory investments in local socioeconomic infrastructure and productive activities.
- Third, they implement local economic recovery programmes through an inclusive approach to decision making and the participatory selection of activities.[155]

Promoting alternative livelihoods

A serious challenge in creating post-war livelihoods is the fact that, even by typical developing country standards, an extremely large number of people have been reduced to surviving in the informal sector. In Bosnia and Herzegovina, for instance, official employment remained stagnant around 600,000 while informal sector employment more than doubled, from just over 200,000 in 1998 to about 500,000 in 2005.[156]

Informal activities raise various challenges, but the most serious is when these activities are illegitimate or plainly criminal. Achieving sustainable recovery under such circumstances

BOX 3.2 PRODERE: AREA DEVELOPMENT AND PEACEBUILDING IN CENTRAL AMERICA

The PRODERE development programme for displaced persons, refugees and returnees was a local-level programme implemented between 1990 and 1995, aimed at recovery, development and peacebuilding in Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. It consisted of six national projects (one in each country) and three regional sub-programmes, and had total funding of US$158 million. PRODERE was a UNDP programme, run in association with UNHCR, ILO and WHO. Several other UN agencies also participated. It generated additional parallel funding of approximately US$40.5 million. The programme benefited approximately 510,000 persons directly in an area totalling 480,000 km^2, involving 93 municipalities and 2,200 local communities. The cost per direct beneficiary was calculated as US$46 per year.

PRODERE contributed to the resolution of more than 75,000 legal issues including personal documentation, land ownership and permits for residence and work under its rights protection activities. Under its aegis, 815 civil society organizations were legally created, including development committees, associations and cooperatives. Production, employment and income-generating projects benefited more than 37,000 persons through technical assistance and skills training, and more than 28,000 producers received credit totalling in excess of US$11 million for microenterprises and agricultural development. Local development agencies were established in which organizations of small and medium producers participated. More than 340 schools were built or rehabilitated, 4,700 educators trained, 53,000 people received adult education and school curricula were developed. A total of 105 healthcare centres were built or rehabilitated and more than 9,000 community health workers were trained.

PRODERE's approach evolved from humanitarian assistance and restricted operations at its start in 1990 into a full-scale development programme by 1994, operating at the departmental (supra-municipal) level. Its success has been attributed to its support for local institutions; its strategic planning; its establishment of local systems of production and employment, health, education and environmental management; its protection of human rights and justice; its good linkages to national sectoral policies; its support to government investment and disbursement; its operation of social investment funds; and the triggering of complementary efforts by other donors.

Source: UNDP, 1999; Lazarte et al., 1999.

is daunting, as Afghanistan illustrates. According to the United Nations Office on Drugs and Crime (UNODC),[157] the net area used for poppy cultivation (for opium) increased by 17 percent, from 165,000 hectares in 2006 to 193,000 hectares in 2007. This represents 4.3 percent of agricultural land, with more than 3 million people (14.3 percent of the population) involved in opium poppy cultivation. Total farm gate value of opium as a percentage of 2007 Afghanistan GDP was 13 percent.

Trying to apply 'orthodox' reforms to restrict the informal economy will not work with those who depend on illegal economic activities out of necessity or greed. Criminal economies will not be abolished by fiat, especially when such activities are an integral aspect of global market dynamics.[158] Co-opting or engaging warlords is politically highly controversial and may involve some unsavoury trade-offs;[159] but unfortunately it may occasionally be necessary for economic continuity in the short term, and essential to getting policy reforms implemented.[160]

There is some potential for avoiding the mutation of nefarious economic activities during war into a criminal peace economy.[161] This may entail building on and transforming certain kinds of informal sector activities rather than seeking immediately to abolish them, as has been proposed for opium production in Afghanistan.[162] Ironically, perhaps, the war economy could be an excellent training ground for entrepreneurship.[163] Warlords are often key nodes in functioning trade networks and they have large pools of financial capital at their disposal, albeit obtained through dubious means.[164] Indeed, it appears that households with access to wartime shadow economies (such as the black market in food aid) have, by accumulating assets, done significantly better in post-war recovery.[165] For example, a truck driver engaged in the gold business during the Bosnian war was subsequently able to build up a construction company in Mostar worth US$250 million.[166]

It is critical that those who depend directly or indirectly on local warlords for welfare or jobs[167] are taken fully into account during alternative livelihood interventions.[168] It is obviously extremely difficult to find legal opportunities for these people that are as attractive as criminal ones.[169] In Afghanistan, for example, opium poppy production remains crucial for household survival. Gross income from opium production ranges from six times the income from rice, to ten times the income from irrigated wheat, and 20 times the income from rain-fed wheat. In addition, traders and traffickers often provide the inputs and take delivery of the product at the farm gate. Nuts and orchards may generate higher revenues than opium poppies, but they require substantial multi-year investments that are beyond the means of most farmers.[170] As part of the UNODC 2007 Afghanistan Opium Survey, almost 3,000 farmers were asked their reasons for growing or not growing opium poppies. Among the growers, 54 percent gave poverty alleviation or high sale price as their answer. The possibility of obtaining a loan and high wedding costs (16 percent and 13 percent, respectively) were the other major reasons.[171]

Such complexity further reinforces the idea that promoting alternative livelihoods must be based on a comprehensive approach and a long-term perspective. The Afghanistan experience points to the imperative of mainstreaming counter-narcotics efforts into national development programmes. To be effective, programmes must cover the whole economy with different types of specific activities depending on the socioeconomic and agricultural landscape.[172]

Policy implications

Fostering economic and employment opportunities may be achieved through a wide spectrum of programmes and approaches that differ in their objectives, instruments, sectoral focus and time-frames. The choice of a particular type of support must be made on the basis of a sound analysis of the local context and its intricacies, as many examples underline the negative consequences and missed opportunities arising from inadequate context sensitivity. Providing jobs on an inclusive basis, so as to combat horizontal and gender inequalities, is also important.

Moreover, it is necessary to ensure that short-term targeted and longer term wider benefits are compatible, indeed complementary. In many cases, interventions geared towards specific immediate outcomes (public work programmes, for instance) can have consequences for the sustainability of peace. Similarly, policies geared towards longer term objectives (such as fostering industrial linkages) are substantially influenced by the realities of the immediate post-war period. It is preferable to start from and build on existing activities, skills, structures and systems, rather than to impose ready-made and overly ambitious solutions. In many cases, taking this approach will result in very different interventions than would otherwise have been the case. This includes using local labour and inputs whenever possible, but also identifying and strengthening existing or potential intersectoral linkages at the local level.

3.6 Strengthening local institutions

Restoring and strengthening local governance mechanisms after conflict is perhaps the key enabling factor in economic recovery. The term 'local institutions' includes these governance mechanisms, as well as the formal and informal rules that guide social interaction at the local level. It also covers social capital, the web of family and social connections that define and inform social behaviour. In addition, it includes issues of property rights, particularly the conditions governing access to land and housing.

Securing access to land and property rights

Many of the world's conflicts are linked, either directly or indirectly, to questions of access to resources, including land, which makes the issue of property rights a central one. Competition over land has indeed been a critical factor underlying many conflicts. Across a range of countries like Côte d'Ivoire, Eritrea, Ethiopia, Mozambique, Rwanda, Sudan and Timor-Leste, land has either contributed to raising the economic profitability of violence or provided a political justification for it.[173] Even where land or property disputes are not a cause of conflict, they are almost universally a major consequence, especially in civil wars.[174] In some cases, those who have profited from war or emerged as the political victors take advantage of their power to grab land. Finally, the presence of landmines constitutes a major obstacle to the productive use of land in many post-conflict countries.[175]

Compounding post-conflict property rights issues is the fact that government records of legitimate titles are often destroyed (sometimes deliberately) during conflict. In Timor-Leste, during the war, militia groups directly targeted land title offices and records. In Dili, militia members took the records outside, set fire to them and then torched the building itself. Approximately 80 percent of all underlying land records in Dili were unrecoverable and, because most of Dili's inhabitants were forced to flee so quickly, most copies of land titles records or certificates were left behind and lost in the general destruction.[176] In the immediate aftermath of the conflict, there was a rush to occupy habitable houses. The relatively widespread pattern of ad hoc occupation by persons other than the pre-conflict occupants continues to generate considerable social conflict.[177]

Another complicating factor is the existence of a plethora of overlapping customary, informal and formal legal frameworks,[178] some of which may in fact have created social tensions and instability. In

Afghanistan, farmers who are frustrated and disillusioned by the failure of local courts to resolve disputes have turned to informal *shura* councils, which were a creation of the Taliban. In Sierra Leone, rural land is controlled mostly by a small group of leading families and lineages. In some instances, the tight control on land allocation exercised by village elders has led to the exclusion of large numbers of young people from opportunities in the rural economy.[179]

Effective markets require the clear delineation of individual and community property rights. Often in post-conflict settings these rights are lost through appropriation and displacement. It is therefore important to (re)establish strong local institutions to help restore legitimate access. This means early strengthening of the rule of law and access to justice mechanisms even as return and reintegration are taking place. It also entails timely, fair, transparent and equitable resolution of conflicts over land and property rights.

The property rights and tenure security of particularly vulnerable groups—such as widows and orphans, the disabled, youth and, often, women in general—must be specially recognized and protected.

Typically, two broad property rights issues tend to arise: first, protecting the tenure security of people in conflict-affected areas; and second, restoring the property rights of returning IDPs or refugees, and/or offering fair compensation or alternative property resources to them. There is an emerging corpus of internationally agreed best practice with regard to property rights issues in post-conflict settings, such as the Pinheiro Principles[180] for land and property restitution, which "are the culmination of more than a decade of international and local activities in support of the emerging right to housing and property restitution as a core remedy to displacement".[181] Local and national institutions need to be empowered to examine claims related to property and land, and they must have the necessary technical and institutional capacities to fulfil the required functions. Efforts must be made to ensure that all parties respect local courts and community-based mechanisms.

The property rights and tenure security of particularly vulnerable groups—such as widows and orphans, the disabled, youth and, often, women in general—must be specially recognized and protected. Young women may be at a particular disadvantage in many places as prevailing ownership rules favour men and land grabbing by local or national elites sometimes occurs in post-conflict settings. These factors can both reduce economic opportunities for local populations and be a cause of tension and frustration within local communities. The rule of law and access to justice must be aimed at protecting against such discriminatory and unfair behaviour. Wherever possible, action should be taken to highlight this risk and to support local and national institutions in their efforts to prevent land grabbing and discrimination.

Strengthening social cohesion and social capital

War transforms but does not always destroy social capital. This truism must be taken into account in the recovery phase. 'Bridging' social capital (between groups) is often profoundly damaged, but 'bonding' social capital (within groups) is not necessarily lost. Where the conflict has an ethnic dimension, the latter may even be strengthened (not always to the good), somewhat similarly to the increase in nationalism that occurs during interstate wars.[182] However, the range for solidarity often shrinks towards the clan and even the nuclear family unit.

Solidarity, which may have appeared spontaneously at the beginning of war—particularly between members of the same ethnic groups—has often disappeared by the end of it, and been replaced by a monetization of social exchange: hospitality and assistance are priced rather than given charitably. Indeed, the prevalence of extreme poverty during lengthy wars seems to lead to disillusionment with collective actions and solidarity, even after the return of peace and the hope of a rapid improvement in living conditions.[183] In Afghanistan, for example, urban social fragmentation has gone beyond ethnic lines leaving the most nuclear form of social organization—i.e. the family—as the only support network.[184] Community actions (such as installing district councils) struggle to develop. Such social fragmentation can be expected to have economic ramifications.

Yet, new forms of solidarity based on reciprocity may emerge.[185] A group of women living in the same neighbourhood, for example, may join to cultivate a plot of land, preparing the field and contributing money to buy seeds or plants. They may help each other by carrying water, sharing whatever tools they have and watching over the produce when harvest time is near. Others might decide to buy a bag of manioc collectively at wholesale prices and divide it up in order to reduce the retail cost of amounts consumed by individual families.[186] Communities might come together to form business associations. In Sierra Leone for instance, such business associations employed ex-combatants (see Box 3.3).

In other cases, traditional associations may be strengthened during conflict to severe adverse effect. In Sierra Leone, for instance, the secret societies such as the *Poro* for men and *Sande* for women—which notably incorporate excision in their rituals—were actually strengthened during wartime.[187]

There is potential to build on promising local initiatives to restore social capital and regulate social interactions in support of collective efforts. An excellent example of building on traditional African processes and methods of conflict prevention and justice administration is the Gacaca, a communal system of conflict resolution, reconciliation and justice administration in Rwanda. It is a participatory process where individuals or communities in conflict (victim and perpetrator) submit their grievances to a jury of their peers for adjudication. Individuals participate by electing representatives, acting as judges, locating and adducing information and giving evidence about the crime. Where a guilty verdict is reached, punishment involves reparations and contrition as a necessary condition for reconciliation and closure. Localizing justice and dealing with impunity ensure that justice is visible to the victims, linking retributive justice and

BOX 3.3 MOTORBIKE TAXI ASSOCIATIONS IN SIERRA LEONE

In the main provincial towns of Sierra Leone, the two-wheeled motorbike taxi has tended to replace conventional four-wheeled cars. Businessmen import the machines from Conakry and offer them to riders on hire-purchase terms over six months. Several motorbike renters' associations have emerged, in which self-reintegrated ex-combatants are prominent. The association in Kenema has more than 600 members throughout the Eastern Province, with an elaborate constitution. Its executive members work with the police and civil society to report night-time movements by suspected thieves. In Makeni, the association has 100–200 members and a rather unruly ex-combatant membership, with problems in getting members to ride less recklessly and with insurance. In Bo, the association has 380 members, of which 28 percent are former [Revolutionary United Front] combatants and 64 percent are former [Civil Defense Force] combatants. Its executive board works to improve discipline and safety, contests police harassment and has opened up training to 45 female riders. Two riders often share a bike so that it is available for hire up to 24 hours a day.

Source: Richards et al., 2004.

reconciliation in a way that is critical to recovery. Gacaca courts were introduced to speed up the genocide trials in Rwanda in 2002 as a response to the backlog of untried cases. In 1999 there were over 120,000 people held in prisons and detention centres on charges of genocide crimes. Only 6,000 cases had been judged between 1996 and 2002. By the end of December 2007, however, approximately 1 million people accused of involvement in the 1994 genocide had appeared before the Gacaca courts. Of these, more than 800,000 have now been tried, with most cases reaching completion.[188]

> There is potential to build on promising local initiatives to restore social capital and regulate social interactions in support of collective efforts.

The idea of peacebuilding through the actual process of economic activity is also particularly interesting. Historically, (legitimate and illegitimate) trade has always taken place across supposedly divided national or ethnic lines. Examples include oil trade across the Abkhaz/Georgian border, vodka and weapons between Chechens and Russian military officers, the Trans-Caucasian Ergneti market, and the extensive links between Croatian networks, Bosnian Serbs, Montenegrins and Belgrade mafia in trafficking drugs, cigarettes and oil.[189]

There is some room, therefore, to make peacebuilding an explicit part of the economic process. In Burundi, for instance, the *Dushirehamwe* network of Hutu and Tutsi women established farming cooperatives that achieved economies of scale through joint production and sale of agricultural products. They were also able to donate cattle, sheep and seeds to others in need.[190] In Kosovo, Mercy Corps supported businesses with multi-ethnic workforces, procurement and business links between ethnic groups, and events that brought together individuals engaged in similar activities (e.g. agri-business conferences).[191] Kosovar-Albanian dairymen have begun supplying milk to Serb cheese manufacturers, and Kosovar-Serb and Kosovar-Albanian beekeepers came to an agreement by which honey would be marketed under a single multilingual label.[192]

The European Union has provided funding to rehabilitate the Inguri Dam (in Georgia) and the neighbouring electricity generation plant (in Abkhazia). The two sides must cooperate if either is to benefit which, despite public belligerency, they have actually done for several years with very few stoppages.[193] Sometimes the geographical scale is smaller. In Rwanda, for example, the Government has encouraged coffee plantations where Hutus and Tutsis work together; the daily contact is seen as a means of speeding up reconciliation by fostering relationships and building communities.[194] Such interlinkages help three dimensions of peacebuilding: personal transformation, relationships between groups and wider conflict dynamics.[195] As emphasized by a member of Rwanda's Unity and Reconciliation Committee:

> You don't reconcile in a vacuum. There must be a practical programme; there must be something that brings people together. As they work together, cleaning the coffee, they talk together so they start talking business but later they start talking family affairs. It fosters relationships and reconciliation.[196]

Addressing institutional discrimination

The social pressures that led to or may have emerged from conflict continue to affect socioeconomic life even after the formal cessation of hostilities. If ethnic divisions were a feature of organized violence, and possibly a root cause, they will certainly remain a problem during the post-conflict period and need to be fully considered and alleviated. Concerns about institutional discrimination have been raised in places such as Kosovo with the treatment of Kosovar-Serbs under Kosovar-Albanian rule; and in Timor-Leste on the treatment of ethnic minorities.

Gender discrimination is also often a feature of conflict-affected societies. Overall, contemporary warfare, despite its massively increased toll on civilians, still kills many more men than women and recruits many more male soldiers than females. So warfare leads to an increased proportion of female-headed households, both during and after war.[197] However, female-headed households tend to remain poorer than male-headed households.[198] After the Mozambique war, for example, female-headed households had on average 33 percent less income, 43 percent less consumption and 51 percent less food consumption per capita compared to male-headed households.[199]

This disparity is rooted in continued gender inequalities in education and skills acquisition,[200] access to job markets and land,[201] customary law-sanctioned dispossession of inheritances[202] or impediments to economic activity. In addition, men returning from war have tended to resume prior power relations by displacing women as household heads. Thus while war may empower women economically, such empowerment is greatly constrained by social norms and laws and is often only temporary.[203]

Strengthening local governance institutions and capacity

Post-conflict environments are typically marked by the absence or weakness of governmental institutions for long periods, as well as by intense social tensions on the ground. In such contexts, devising alternative solutions for governance at the local level assumes some urgency. This consideration is reflected in the logic of area-based development programmes.

> Fostering local governance and supporting civil society organizations can empower people and local organizations to accelerate economic recovery and to claim and exercise their rights or carry out human rights advocacy.

Perhaps the most extreme examples of the complete disintegration of central governance institutions in recent years are Afghanistan in the 1990s and Somalia since 1991. Even in less extreme cases, the PRODERE example (described in Box 3.2) shows that fostering local governance and supporting civil society organizations can empower people and local organizations to accelerate economic recovery and to claim and exercise their rights or carry out human rights advocacy. Local traditional authorities can play an important role in dispute resolution, in particular with regard to access to property and other natural resources (including forests, fishing areas and grazing land, etc.). By focusing on gender equality and the inclusion of vulnerable groups while building the capacity of traditional authorities, these programmes can help build important linkages with government or other non-traditional power structures and institutions at the local level. These linkages may also be important in terms of the sustainability of peace, employment and reintegration. Prior to working with these authorities and investing in their capacity, a careful conflict assessment should have been made so that reconciliation is indeed promoted. It is also necessary to make special efforts to ensure that women and youth are equal beneficiaries of any distribution processes.

A young woman uses her cell phone on Broad Street in downtown Monrovia, Liberia, October 2003 (Tim A. Hetherington/Panos Pictures)

Policy implications

As a general principle, assistance interventions must recognize that peacebuilding and economic recovery do not happen in a social vacuum. Indeed, their success greatly depends on the types of incentives and opportunities inherent in the social capital matrix and in the 'rules of the game'. External assistance must seek to strengthen and adapt, as necessary, existing mechanism and processes of social interaction.

3.7 Mediating access to financial resources

As a result of massive decapitalization caused by war, poorer households in particular need assistance with access to some financial resources to support their efforts to rebuild their lives and contribute to the overall recovery. The less poor households may be able to borrow from the formal financial market and some poor households from (typically usurious) informal capital markets. However, the poorest households do not have the collateral to make these options feasible. Lack of finance jeopardizes household efforts to get out of poverty in two ways. First, it prevents them from adequately mitigating the effects of shocks should they occur. Second, it constrains their investment options and induces productive choices aimed at minimizing risk rather than maximizing output.[204] In Rwanda, for example, those whose homes were destroyed or who lost land ran a significantly higher risk of falling into poverty.[205] In Mozambique, severe rural poverty followed the huge decline in cattle stocks from over 1.3 million in 1982 to 0.25 million in 1992.[206]

This section examines microfinance and remittances, which are two sources of financing that have played a significant role in post-conflict settings.

Microfinance and local credit institutions

Microfinance caters particularly to low-income or vulnerable clients who have no access to mainstream financial institutions. Globally there are about 500 million active clients served by microfinance programmes.[207] Microfinance mechanisms such as rotating credit and savings associations have traditionally been important in many developing countries. A good example is the *hagbed* in Somalia. Groups of around 10 to 20 women who trust each other initiate credit-sharing arrangements among themselves. The chairperson is chosen according to her influence in the clan and the respect she enjoys. Participants pay daily or weekly contributions to the group, depending on their income level. *Hagbed* money has traditionally been utilized to purchase household goods or jewellery, but is now more commonly invested, used as start-up capital for small businesses or to replenish inventories.[208]

There is hardly a country with an experience of conflict over the past 20 years that has not experimented with microfinance.[209] However, there is no specific data source to track the size, profile and impact of post-conflict microfinance.[210] Cambodia has the longest experience in post-conflict microfinance,[211] while the Microfinance Investment Support Facility for Afghanistan (MISFA) is one of the world's largest microfinance programmes in a conflict-affected setting in terms of the absolute number of clients, benefiting over 350,000 clients as of February 2007.[212] Individual country studies suggest wide variations in the scale of microfinance, measured by the number of clients in relation to population—from under one percent in Eritrea, for example, to five percent in Papua New Guinea and over six percent in Bosnia and Herzegovina.[213]

With all the social, political, economic and political considerations that are inherent in the post-conflict setting, there is some tension between the commercial and social objectives pursued by microfinance providers. Some analysts see microcredit as an effective tool for alleviating war-inflicted economic hardship and for fostering economic development and peacebuilding. Others argue that it is significantly limited in scope, outreach and sustainability.[214]

Bosnia and Herzegovina presents an excellent case study of post-conflict microfinance. The sector was developed there as part of an internationally assisted programme to support recovery following the devastating 1992–1995 conflict. Its growth in such a short time provides an opportunity to draw some general lessons on the merits and limitations of microfinance during post-conflict economic recovery.[215]

The main vehicle for building the microfinance sector, which was virtually non-existent before the war, was the Local Initiatives Project (LIP) initiated by the World Bank. LIP1, officially launched in 1997,[216] together with its follow-up LIP2, aimed to provide financial resources to people wanting to start their own small businesses and to take an active role in rebuilding their livelihoods instead of depending on state social welfare funds. By 2000, five years after the end of war, microcredit organizations supported by LIP had disbursed 50,261 loans to 19,361 clients for a total of KM148 million (US$67 million).[217] By 2005, 380,000 loans had been disbursed to 98,852 clients, half of whom were women, for a total of over KM1.2 billion (over US$700 million). It is important to note, however, that this was equivalent to only 5 percent of the value of the commercial banks' loan portfolio. It is estimated that some 200,000 jobs were preserved or created between the initiation of the project in 1997 and its end in June 2005.[218]

Microcredit seems to have been particularly beneficial to people affected by conflict, such as the displaced, returning refugees, war invalids and demobilized soldiers. Over time, it enabled them to overcome some of their conflict-induced vulnerabilities. Seventeen percent of total loans were disbursed to displaced persons and returnees, who constituted about a quarter of all clients. This greatly helped reduce their dependence on humanitarian aid. The projects reportedly also had a significant positive impact on two groups that are critical to post-war economic recovery, namely women and young people. Two major and several smaller NGOs targeted women exclusively, and women were an important beneficiary group for all microcredit suppliers. Having their own business is often empowering for women, elevating their role in the household and the community.[219] Regarding young people, it is striking that the some 70 percent of all employees in microcredit organizations are under 30 years old.[220]

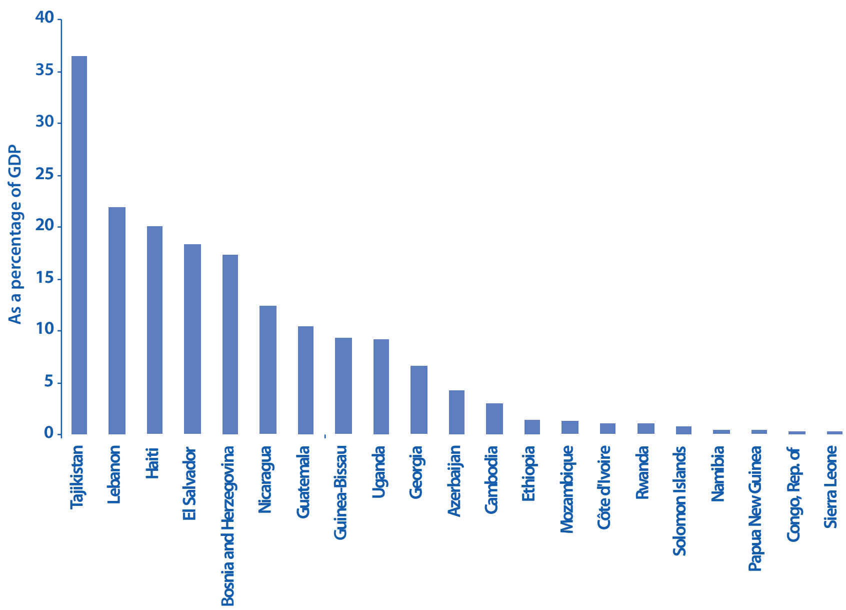
Overall in Bosnia and Herzegovina, microcredit has been an important response to the challenges of recovering from conflict at the household and community levels. This indicates that it should be integrated into overall policy frameworks for post-war economic recovery.

An important adaptation of microfinance critical to post-conflict environments is a need to combine the provision of microfinance services with capacity-enhancing initiatives, such as skills advancement and training schemes, which are crucial in enabling microcredit clients to make the best use of the opportunities to create and sustain productive employment.

The social and political benefits of post-conflict microfinance might actually be as great as its economic benefits. Conflict pressures could be reduced if microfinance is able to alleviate poverty and inequalities where these are causes of conflict, and low-intensity conflicts are more likely to be reduced if populations are imbued with more economic optimism and opportunities.[221] The provision of credit can also bring together competing groups in common enterprises, thus reducing mutual prejudice and building social capital.[222] In Bosnia and Herzegovina, microcredit organizations were among the first to open commercial contacts across the internal border.[223]

Overall, the Bosnia and Herzegovina story suggests that microcredit can be effective and long lasting in funding productive self-employment activities. However, its impact on creating new jobs is more limited, as is its effect on generating economic growth. Its essential role in a post-war setting is as a recovery tool at the household and community level, in the transition to the broad-based economic recovery that creates large-scale employment and improvements in income. Microfinance cannot be seen as a panacea for financing post-conflict economic recovery, but it can make a critical contribution to the process of sociopolitical reconciliation.

Figure 3.16 **Workers' remittances in selected post-conflict countries, 2006**



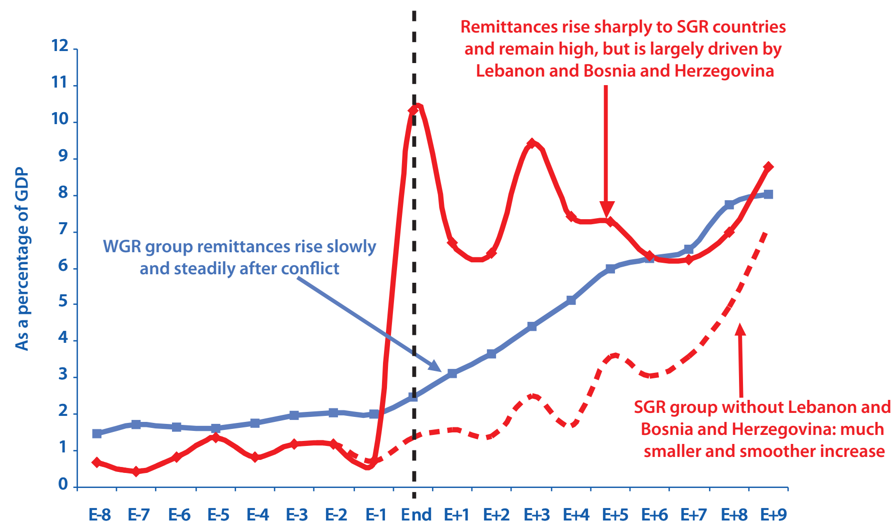
Source: World Bank, 2007a.

Remittances

Remittances have also helped many households to counteract transient poverty. According to a recent report from the International Fund for Agricultural Development (IFAD),[224] remittances amounted to US$300 billion globally in 2006 and involved over 1.5 million separate transactions.[225] Figure 3.15 indicates the magnitude and range of remittance flows received by post-conflict countries in relation to their GDP.

While the evidence in not definitive, it seems likely that post-war economies rely more heavily on remittances than non-conflict economies.[226] In any case, it does seem that remittance flows increase after conflict, with massive surges in a few countries, particularly Bosnia and Herzegovina and

Figure 3.17 **Workers' remittances: SGR versus WGR countries**



Note: The SGR group does not include Afghanistan and Liberia and the WGR group does not include Burundi and the Republic of Congo.

Source: World Bank, 2007a.

Lebanon (Figure 3.17). As such, in post-conflict situations, remittances can contribute to recovery both at the micro- and the macroeconomic levels (see Box 3.4). At the macroeconomic level, they can contribute to correcting balance of payments deficits. At the household level, they constitute an income that can be used in various ways. They are a stable source of income security because their flow is not diminished during economic slumps—indeed the flow actually increases during times of crisis, prompted by phone calls to relatives for help.[227] Remittances thus can act as an insurance against transient poverty. Furthermore, as part of households' strategies to smooth consumption in the presence of shocks, they may be counter-cyclical and help prevent further decapitalization.[228] As described by an interviewee in the Somaliland region: "Remittances are the backbone of the Somaliland economy... If they were not sent people would not have survived like this."[229]

A much-debated issue is whether remittances are primarily used towards consumption or investment expenditures. The evidence on this is unclear, not least because of definitional, conceptual and methodological problems.[230] Strictly speaking, household expenditures on health and education are consumption expenditures (the sum paid for a visit to the doctor or for school fees, for instance). However, they do contribute to building human capital. Analytically, consumption spending is not a problem if it fosters growth through local multiplier effects.[231] In addition, where jobs are not available anyway—as in much of sub-Saharan Africa—remittances can be the only source of income that keeps young people from living on the streets and resorting to crime for survival.[232]

The spillover effect may be weak in countries that have to import most goods. In the Somaliland region, for example, where US$100 million is spent each year on the popular stimulant *chat* (*qat*), even this 'essential' product is wholly imported from Ethiopia.[233] In extreme cases, remittances may contribute to a Dutch disease-like effect[234] by keeping the exchange rate high and further discouraging domestic production of tradable goods, as happened in Albania and Moldova.[235]

Thus, a more important question is whether and how remittances can contribute to recovery. There are contrasting views on the extent to which remittances are used as working capital (to set up shops, import and export businesses and taxi, bus or trucking businesses, for instance).[236] Yet, as discussed above, even when they are not used for investment in the strict sense, remittances can yield long-term benefits by building human capital. In Haiti, while around 42 percent of remittances are expended on food and clothing and only four percent is channelled into business, 30 percent is spent on edu-

BOX 3.4 USE AND EFFECTS OF REMITTANCES: SOME EMPIRICAL EVIDENCE

Several studies on the use and effects of remittances have been undertaken. Adams used a household data set from Guatemala to analyse how remittances affect the spending behaviour of households. His results show that recipients of remittances spent marginally more on education, health and housing than on items such as food. For instance, households receiving internal and international remittances spent 45 and 58 percent more, respectively, on education than did households with no remittances. Similarly, Kugler found that remittances were associated with an increase in human capital accumulation in recipient households in Colombia (11 percent higher spending on education). Kugler also identified potential benefits to aggregate education and employment through spillover effects. Edwards and Ureta used data from El Salvador to analyse the effect of international remittances on households' schooling and found that remittances reduced school dropouts much more than other sources of income (10 times more than other income in urban areas and 2.6 times more in rural areas). Acosta et al. analysed household surveys of 11 Latin American countries and found that "access to remittances" was positively and significantly associated with higher educational attainment in six of them. Only in two countries (Dominican Republic and Jamaica) was the effect always non-significant. They also found that the impact of remittances changed in the various countries by gender and across rural and urban areas. Yang found that the positive income shock to households in the Philippines in the form of an increase in remittances due to an appreciation of the migrant's currency against the peso resulted in higher human capital accumulation (more spending in education, less child labour and more child schooling). Yang also studied the effect of an increase in remittances on entrepreneurship, and found that the number of hours worked in a household enterprise (self-employment), and the likelihood of starting relatively more capital-intensive household enterprises, were both increased.

Sources: Adams, 2005; Kugler, 2005; Edwards and Ureta, 2003; Acosta et al., 2007; Yang, 2006.

cation and health.[237] The evidence suggests that many of these households would not be able to spend on education and health without remittances.[238] The advantages of remittances therefore need to be viewed against the costs of attracting the diaspora back (see Box 3.5).

On the negative side, the role of remittances in conflict financing and conflict relapse has frequently been highlighted. Some empirical work suggests that the risk of conflict recurrence is significantly higher in those countries that have, proportionately, the largest diaspora group abroad, apparently because of their role in financing insurgent groups at home.[239]

Enhancing the role of remittances

In recent years, several big improvements have been made to remittance infrastructure, increasing the volume of flows and the efficacy of their dispersal. In the Somaliland region, for example, the expansion of international commercial flights and the enhanced availability of telecommunications have boosted the remittance economy. Somalis living abroad can more easily contact their families at home and are no longer left wondering if the remittance money they sent reached their relatives.[240] Although the United States shut down Al-Barakaat—the largest *hawala* enterprise (see below) facilitating fund transfers to Somalia[241]—other informal enterprises appear to have been able to provide alternative channels.

To enhance the role of remittances in supporting post-conflict recovery, two avenues may be explored. First, as noted in the IFAD report, while transactions costs have fallen over the last decade they are still quite high, except in high-volume remittance corridors like Latin America. It is important to try and further reduce these costs to maximize household receipts and improve the competitiveness of the formal remittance vehicles. Because, for instance, banks do not operate in many rural areas, households depend on an informal transfer network; and with the economic deterioration caused by conflict, the same applies to many urban households. The more quickly financial institutions can reach the poor and rural households, the faster transactions costs are likely to fall. It is important to explore the inclusion of remittance intermediation in the portfolio of microfinance institutions.

The more people know about the advantages of the formal system, the more likely it is that they will use it. An innovative attempt to reduce the information deficit is a website that provides comparative information on methods of remitting money from a range of European countries to 34 countries in the developing world, including Afghanistan, Bosnia and Herzegovina, Rwanda and Sierra Leone.[242] This may be helpful where a wariness of formal methods of transfer stems partly from a lack of information.[243]

BOX 3.5 LIBERIANS IN THE US: BETTER TO STAY OR RETURN?

During Liberia's civil war, 3,600 Liberians were granted temporary protection in the United States, and some of them have been living there since 1991. They were scheduled to return home in September 2007 but many of them send money to relatives in Liberia and will not be able to do so when they return. Miatta Yawson, for example, says around 20 people in Liberia—aunts, uncles, cousins, nieces and nephews, many of whom live together in a makeshift shack—depend on the money she sends each month from the home she and her husband now own in a Philadelphia suburb. In Minneapolis, meanwhile, so many Liberians work in healthcare that hospital and city officials have begun lobbying to let them stay. Similar protected status was cut off by the United States in 2004 for several thousand Sierra Leoneans, who then had to return to Sierra Leone.

Source: Ludden, 2007.

Second, the IFAD report also suggests that banks could leverage the development impact of remittances by setting up account-to-account transfer systems rather than cash-to-cash, as is predominantly the case now. The idea of cross-selling financial services to recipients of remittances, after they have built up a credible credit history, is one that the report also proposes as a way of leveraging the impact of remittances. Some good practices may be found in countries with a sophisticated institutional framework for reaching out to the diaspora. For example, Brazil and Ecuador channel remittances to entrepreneurship projects using specialized banks, and Morocco and Senegal have commercial banks that offer special services for migrants.[244] At the receiving end, Home Town Associations have sometimes begun organizing recipients to pool resources into productive projects.[245] However, both the account-to-account and the cash-to-cash transfer systems require decent telecommunications infrastructure that may not always be available. In contrast, the *hawala* system (Box 3.6) provides a good example of a locally grown system capable of operating in post-conflict landscapes where institutions and infrastructures are weak.

In conclusion, remittances already provide a key means of alleviating poverty. Indeed, their impact can be even greater per unit than that of traditional foreign aid, because they go directly to households and increase consumption and saving without leakage to the bureaucracy. However, remittances could be even more useful in post-conflict economies if they were better leveraged to support productive investments.

3.8 Indigenous drivers and external assistance frameworks

The basic message of this report is that economic recovery is quicker and more sustainable when it supports and builds on indigenous drivers because local actors are the best placed and have the strongest long-term incentive to engage in activities conducive to sustained economic recovery.

Typically, however, these spontaneous, locally grown efforts are not sufficient to meet the needs and

BOX 3.6 HAWALA MONEY TRANSFERS[246]

In the absence of formal money transfer systems provided by commercial banks or enterprises—or simply because formal systems are unwieldy or expensive—remittances are often transmitted through informal money transfer systems, including the famous hawala system in countries like Somalia. This is a trust-based money transfer system that moves as much as US$1 billion into Somalia every year. The remitter gives a hawala agent in London, for example, the sum in cash, paying a commission of perhaps five percent. The agent deposits the cash in a local bank account to be transferred to the hawala company bank account in Djibouti or Dubai. The agent then alerts the clearing house in a regional Somali capital (or, most often, Mogadishu). The clearing house, in turn, passes the details (probably by cellphone) on to whichever agent is geographically closest to the intended recipient. Usually the recipient will already have been contacted directly by the remitter to let them know the money is coming, and will then contact the agent. The agent cannot rely on official identity papers in Somalia, so will quiz the recipient about clan lineage and other questions provided by the remitter before delivering the money. The whole transaction is usually completed in 24 hours.[247]

Source: Omer, 2003.

challenges on the ground. Development assistance remains necessary but it should harness, build on and remove impediments to indigenous drivers. If development support respects local conditions and people's actual circumstances, and is embedded in and strengthens local capacities in the long run, it is more likely to be successful and the results self-sustaining when external assistance is reduced. This implies using and strengthening local skills, labour and networks to the greatest extent possible so as to generate local spillover and stimulate knowledge and capital accumulation.

The emphasis on indigenous drivers indicates a need to re-examine the development assistance frameworks that are most often deployed immediately after wars end. Instruments such as PCNAs typically entail asking questions about the distributive impact, inclusiveness, sustainability and effects on local capacities of existing initiatives.[248] However, they usually stop short of full capabilities assessments entailing an inventory of local knowledge and domestic initiatives. More importantly, there is a recurrent concern that, even with their shortcomings, the results of PCNAs are often not taken fully into account in constructing post-conflict financing mechanisms, in making resource allocation decisions and in designing and prioritizing programme interventions.

In the case of poverty reduction strategy papers (PRSPs), the long-standing concern about the limitations of the process of building broad-based support across central and local governments and in the public consciousness applies with greater force in post-conflict settings. The 2005 World Bank/IMF review of the PRS approach acknowledged that, while the process has expanded the space for dialogue over time, participation has remained broad rather than deep.[249] Parliaments, for instance, are often not fully engaged, and the PRS process has had limited impact on discussions of the macroeconomic framework and related structural reforms.

The challenge of developing and implementing the PRS is even more daunting in post-conflict countries. The realities in these countries impose additional constraints on the capacity of their national leadership to lead the dialogue. Yet, the PRS process must also reflect the security, political and humanitarian imperatives and it must be conflict sensitive. Fortunately, there are some good practices that could be more widely adopted. Burundi, Rwanda and Sierra Leone examined issues of regional disparities, unequal access and ethnic dynamics in their analysis for the PRS. Bosnia and Herzegovina adopted a conflict-sensitive participatory process that included all regions and ethnicities and was approved by parliament.[250]

MDTFs have a special importance in post-conflict settings as donors may be uneasy about channelling resources directly in the form of budget support because of weakened national structures and financial safeguards. While they constitute a small share of overall aid flows, they are sometimes mandated in peace agreements or established as a collective external funding response to a PCNA as a precursor to direct budget support. 'Single-purpose' MDTFs can be valuable as vehicles to support such areas as civil service salary payments and DDR. Despite their link to national needs assessments, however, 'multi-purpose' MDTFs have not been strongly driven by an overall strategy. Rather, the grant-giving nature of the funding vehicle has led to a 'projectization' of resource allocation. Issues such as prioritization, sequencing, modalities of assistance and equity in coverage (demographic, geographic and social vs infrastructure investment, for instance) that may have been highlighted in the PCNA are frequently diminished or lost once funding starts flowing.

On the other hand, MDTFs offer a precious platform for dialogue among donors, the host government and other actors (e.g. NGOs) on good practice, aid policy, prioritization and objective setting, project standards and implementation arrangements—all of which can provide some capacity development and trust-building spin-offs. Recent reviews of MDTFs by the UNDG and by the World Bank in 2006 identified significant potential added value as an impetus for broader aid coordination (including greater alignment with national priorities), attracting non-traditional donors and pooling risk. Higher levels of participation in MDTF-like pooled funding mechanisms can constitute an important antidote to earmarking and lack of coherence (though many believe that it is precisely because of restrictions on earmarking that MDTFs continue to channel such a small proportion of overall flows).

In response to the special needs and circumstances of post-conflict countries and high costs of disengagement, the international financial institutions (IFIs), and to a lesser extent bilateral donors, have been revising aid allocation policies and procedures to enable them to act more quickly and more flexibly in fluid conflict-affected environments (see Box 3.7).

The analysis in this chapter indicates the need to improve the process of post-conflict recovery support from needs assessment, to development of plans and programmes utilizing consistent standards and criteria, to financing. The indigenous driver approach suggests a process that has nationals clearly in the lead, even while recognizing the challenges of a fully inclusive exercise in an immediate post-war setting. The process would incorporate a common approach to defining the recovery challenge. It would make prioritization and sequencing explicit; include a robust needs and capacity assessment; and make capacity development, conflict risk assessment and a full analysis of gender roles explicit in project design. It would develop an implementation scheme that maintains full transparency (including through a public information campaign). It could provide a platform for standard setting in each country context, related to such issues as local procurement, geographic distribution and equity, full gender mainstreaming, costing methodologies and sequencing into longer term investment planning (including MDG assessments and PRSPs), and channelling of resources to local institutions. Because of the proxy role the multi-purpose MDTF tends to play in the country-level aid coordination architecture in the early post-conflict period, it could be an ideal instrument for such a coherence platform if there is sufficient political will on the part of the major players. When started early (before full national assessment, which can take many months after the signing of a peace agreement), the establishment of an MDTF can assure discretionary early recovery capital to support local coping and economic regeneration initiatives. Once a full assessment

BOX 3.7 NEW APPROACHES BY THE IFIS

The World Bank's International Development Association (IDA) is using several new modalities to improve aid allocations and has expanded its ability to support post-conflict recovery through increased financial resources and a new policy framework with changed allocation procedures for severely impacted post-conflict economies. Special post-conflict assistance is available in excess of what these countries would normally be allocated based on performance (as measured by the Bank's Country Performance and Institutional Assessment—CPIA).[251] Traditionally, IDA's performance-based allocation system provides resources based on a complex formula incorporating the CPIA, population, the gross national income per capita, portfolio performance and governance assessments, although the measure also does factor in country needs. Moreover, grant financing is being used with greater frequency in post-conflict settings in order to alleviate the debt sustainability burdens of the recipient governments. Under both IDA 13 and IDA 14, there is an increased concessionality of IDA assistance and a greater attention to countries' risk of debt distress. In parallel, in 2004 the Bank created a LICUS Trust Fund of US$25 million for low-income countries under stress, now the Fragile and Conflict Affected Countries Program. A Post-Conflict Fund has also been developed as an important operational vehicle to ensure greater resource transfer to post-conflict countries, although the money dispersed from both funds has not been large. Also, greater focus has been placed on improvements in donor coordination, coupled with strengthened national ownership through the PRSPs, in order to improve the timing and programming of aid disbursements.

The overall goal of the various instruments is to improve the predictability of resource flows to post-conflict countries, strengthen the basis for judging resource needs, and ensure equity of treatment across countries and regions. IDA management has developed a new methodology to monitor post-conflict progress indicators, indicators that are used to measure changes in post-conflict countries and that are more heavily weighted to issues not captured in the CPIA. In sum, the challenge for IDA, as for other donors, will be to increase both the volume and predictability of flows and incorporate the special needs and circumstances of post-conflict countries without jeopardizing the performance-based allocation system.

In parallel, as part of a greater plan to prioritize financial aid and technical assistance for African countries emerging from conflict, the IMF has approved an Emergency Post-Conflict Assistance (EPCA) in support of economic reconstruction after natural disasters or conflicts. Providing both technical assistance and policy advice, EPCAs are focused on countries where there are strong balance of payment difficulties after violent conflict and a need to strengthen reserves, and where conflict has been disruptive of country institutional and administrative capacity. Potentially faster disbursing than traditional IMF instruments, such as the poverty reduction and growth facility (PRGF), EPCAs also have the added benefit of having as a prerequisite arrears clearance only to the Fund (as opposed to the Paris Club and other donors).

Source: World Bank, 2004a; IMF, 2008a.

process (like a PCNA) has been completed, the MDTF provides the platform for predictable, unearmarked multi-year financing according to the peacebuilding and sequencing storyline agreed in the PCNA and resulting plan (assuring continuity into the implementation phase, decisions on resource allocation and project methodologies). MDTFs can be a feasible mechanism for focusing on sensitive issues such as land and property rights, and provide a risk-sharing mechanism for critical early venture capital to restart local economies and private concerns that may not be attractive to individual donors in uncertain post-conflict settings.

Critics sometimes fault MDTF administering agents for charging excessive overheads or favouring their own projects over national/local initiatives. The unequivocal position of this report is that national and local initiatives should get clear precedence. Even if in the early stages such initiatives need some external support, exit should be quick. As for the overhead charges, they are an unavoidable cost of business. Financial and technical intermediation does cost money, particularly in situations of transitional governments, weak or uneven national and local capacities, and weak or non-existent banking systems. This understanding is intrinsic to the design of the MDTF as it recognizes that national systems cannot yet accommodate direct budget support or provide all necessary intermediation services. Perhaps a more important focus is not on the overheads themselves (which are frequently monitored closely by multilateral governing bodies) but rather on the seriousness of the efforts to engage national and local capacities and to strengthen these capacities (which may incur higher intermediation costs at the beginning), and on the exit strategies—established from the outset—to hand over to national/local partners according to defined and monitorable benchmarks.

> The indigenous driver approach suggests a process that has nationals clearly in the lead, even while recognizing the challenges of a fully inclusive exercise in an immediate post-war setting.

3.9 Conclusion

Summarizing broadly, three overarching considerations emerge for nurturing indigenous drivers of economic recovery. These are conflict sensitivity, gender equity and context appropriateness.

In supporting recovery, external assistance must avoid aggravating tension points. Indeed, it should seek to significantly reduce them. Chapter 2 showed that the existence of high levels of horizontal inequalities predisposes countries to conflict. Where this has been an important factor, post-conflict policies should aim to reduce such inequalities. This involves assessing their extent and introducing appropriate policies to address them. For example, where horizontal inequalities are manifest in the marginalization and exclusion of certain groups, external support should seek to promote participation of those groups in decision making. Promoting an inclusive political system is critical where exclusion is severe, as this can be a clear and immediate threat to peace.

Policies to tackle socioeconomic inequalities can be direct or indirect. Direct policies target particular groups with respect, for example, to group shares of education, employment or investment. Indirect policies are universal in application but have the effect of improving the relative position of particular groups. Direct policies have been adapted to improve the position of particular groups in Canada, Malaysia, Northern Ireland, South Africa and the United States. One approach is the use of procurement as a way of enforcing anti-discrimination laws; another is to enforce affirmative action targets; a third way is to stimulate entrepreneurial activity among particular groups.

In the United States, public sector contracts have been used to tackle under-representation of minorities, and the Public Sector Works Employment Act of 1977 requires that at least 10 percent of every local works project grant goes to minority businesses. In Malaysia, Bumiputra (ethnic Malay) companies receive a margin of preference in competing for contracts. In South Africa, policies adopted to correct the gross black–white inequalities include targeted procurement and a black empowerment objective to enhance black ownership of private capital. Direct policies have also been used to improve the position of women, both politically and economically—for example, by instituting microfinance for women only, or by setting targets for female education or employment.

Indirect policies can be effective where, as is often the case, particular groups are regionally located—so that regional infrastructure can be designed to reduce inequalities. This has been the approach recently adopted in Nepal, after years during which these issues were neglected.[252] Progressive systems of taxation and expenditure—favouring poorer people—also contribute to reducing group

Afghan woman drives steamroller in Kabul, Afghanistan, August 2003 (Ahmad Masood/Reuters/Corbis)

inequality.[253] This needs to be considered in the design of both direct and indirect taxation. Land reform may also be important, where land distribution favours one group over another. Inequalities in land ownership among ethnic groups in Kenya and between whites and blacks in Zimbabwe have been a source of resentment and, sometimes, violent disputes.

The importance of fully integrating gender considerations in all post-conflict policies and programmes has been emphasized throughout this chapter, but it bears restating for two main reasons. First, ensuring that women and girls have equal access to employment opportunities, education, health and finance is a moral imperative and is central to the notion of human development. Second, women and girls are key economic and sociopolitical assets in the recovery process. Rwandan women played a critical role in economic recovery in the aftermath of the 1994 genocide. In this traditionally patriarchal society, where women were not previously visible in the economic structure, they mobilized themselves to take on roles traditionally played by men. They formed associations and cooperatives for social and economic reconstruction and led community-based economic initiatives, such as housing construction, coffee cultivation and handicrafts. They also organized themselves to build schools, as with ASOFERWA (Associations de Solidarité des Femmes Rwandaises), which is credited with having built the first model village (also called 'peace village'), provisioned with water, electricity, and education and health infrastructure. Through this initiative ASOFERWA also fosters peace and reconciliation, as its schools are attended mostly by genocide orphans and children of genocide suspects.[254]

The issue of gender equality has attracted considerable attention in the international community over the last decade. United Nations Security Council Resolution 1325, passed in October 2000, requires among other provisions equal participation for women in decision-making and peace processes.[255]

While conflict and violence have an impact on both women and men, the effects are different. The social changes brought about by war disrupt normative gender roles and can profoundly affect women's and men's livelihoods strategies in the aftermath. Armed conflict may mean that an individual's ability to make a living is compromised, but it can also have the effect of forcing people to learn new skills. It is imperative, therefore, that gender analysis is central to PCNAs, as well as to project and programme design. Moreover, women must be equal participants in these processes.

The indigenous driver approach requires finding the right balance between historical, immediate and long-term considerations. This means 'building back differently' as necessary, rather than merely 'rehabilitating' what previously existed. It means reconciling the need for quick and visible gains with considerations of the long-term requirements of recovery. In essence, a 'good' programme is one that is optimally adapted to the local context by taking full account of local and national capacities and seeking to build on existing practices in a creative manner. It is one where local communities are actively engaged in strategic decision making, even as they consciously seek to build bridges across old sources of tension.

The analysis in this chapter has highlighted the importance of the interaction between, on the one hand, the demographic profile and dynamics of the conflict-affected society and, on the other, the dominant modes of livelihood. The nature of recovery activity and therefore of the indigenous drivers depends very much, for instance, on whether the population is mainly rural or urban; on whether it is younger or older; and on how extensive the conflict-induced displacement of people is. These questions underscore the importance of analysing the nature of indigenous drivers within specific demographic contexts.

Good physical infrastructure and physical security create a context in which economic activity can take place most efficiently. Human capital, financial resources and local institutions constitute the micro- and meso-level assets and resources through which the goods and services that signal recovery can be generated. Employment policies and private-sector development are crucial for sustained recovery. The priorities for policy makers are to remove obstacles to economic activity, enhance incentives and intervene to provide direct support where necessary. In every case policy must be designed in a conflict-sensitive manner. These micro- and meso-foundations of economic recovery can, in turn, be reinforced or undermined by the way macroeconomic reforms are undertaken. This is explored in the next chapter.

Chapter 3 notes

[1] A similar 'drivers of change' approach has been advanced by the UK's Department for International Development (DFID, 2004). However, our approach here places particular emphasis on the internal, domestic and national drivers of recovery.

[2] Andersen, 2007, pp. 14-15.

[3] Schwartz et al., 2004.

[4] World Development Indicator (WDI) calculations in Schwartz et al., 2004.

[5] Kilroy, 2006. The power cuts are caused partly by the very slow progress in expanding electricity generation capacity, exacerbated by a fire at one of the main power stations, and partly due to fraud. See Bray, 2005.

[6] IRIN, 2005.

[7] An IMF study reviewing over 40 studies on the subject highlighted the inconclusive evidence for a significant positive causal link between public investment levels and infrastructure and rates of economic growth over time and across countries. Souter et al. interviewed 2,300 rural inhabitants in Mozambique, Tanzania and Gujarat state in India (although not all of these are post-conflict countries), and found the economic benefits of telecommunications to be secondary to its emergency use and for maintaining social networks. The economic benefits telecommunications did bring accrued mainly to high-income and well-educated individuals. Low-income groups actually perceived telecommunications to have a negative economic value. See IMF, 2004 and Souter et al., 2005.

[8] Andersen, 2007; de Renzio and Levy, 2006.

[9] In Afghanistan, for example, the World Food Programme (WFP) supported 2.9 million people through food-for-work projects in the first six months of 2007. The food was 'paid' for by providing labour in the rebuilding or repair of community assets such as roads, bridges, schools, reservoirs and irrigation systems. See WFP, 2007.

[10] Holden et al., 2006.

[11] Bray, 2005, p. 1.

[12] Bray, 2005.

[13] Zuckerman, 2007.

[14] The same telecom firms did say, however, that they would prefer to be paying taxes, since a functioning government might be able to restore security—currently a large cost to business.

[15] Winter, 2004b.

[16] *The Economist*, 2005.

[17] MacDonald, 2005.

[18] Ports have immediate hard currency earnings potential, and can be secured more easily than network assets such as road and rail, which remain vulnerable to sabotage and interruptions.

[19] These 25 countries, "taken from Collier and Hoeffler, 2001", are "Afghanistan, Angola, Algeria, Azerbaijan, Bosnia and Herzegovina, Burundi, Cambodia, the Democratic Republic of the Congo, the Republic of Congo, El Salvador, Ethiopia, Georgia, Iraq, Lebanon, Liberia, Mozambique, Myanmar, Nicaragua, Rwanda, Sierra Leone, Somalia, Sudan, Tajikistan, Yemen, and the Federal Republic of Yugoslavia". Schwartz et al., 2004, Annex 1, p. 24. They are defined as those where "…the government can barely exercise control independently and has very weak institutional capacity. It cannot exercise territorial control on most of the country and cannot guarantee security except for the capital area. These countries tend to have suffered prolonged and devastating civil wars, which in some cases may have led to the almost complete collapse of the state." Schwartz et al., 2004, p. 7.

[20] According to the World Bank and Public–Private Infrastructure (PPI) Advisory Facility data, cited in Schwartz et al., 2004.

[21] Schwartz et al., 2004, Table 2.

[22] Wallis, 2007; French, 2007.

[23] In contrast, the European Union (EU)-financed *Projet d'appui à la réhabilitation* (PAR) repaired not only asphalt roads but also feeder roads and roads leading to major river embarkation points. See Tollens, 2004.

[24] See in particular Everhart and Sumlinski, 2001; Roy et al., 2006.

[25] Roy et al., 2006.

[26] The focus on fiscal deficit/GDP ratios and debt/GDP ratios as policy targets to be secured through fiscal consolidation, "introduced a strong bias against expenditures characterized by high short-term costs and long-term returns such as infrastructure projects". See Roy et al., 2006, p. 6.

[27] IMF, 2004. See also: Servén and Solimano, 1992; Calderón et al, 2003.

[28] Commission for Africa, 2005, p. 234.

[29] For instance, World Bank lending for infrastructure projects experienced a sharp decline between 1999 and 2003, in part due to "a growing concern about the public image of the Bank in the face of civil society opposition to large infrastructure schemes, and a strategic shift in the Bank's focus from 'bricks and mortar' to public administration, health and education". For more detailed information and for additional discussion of the vulnerabilities of infrastructure projects to corruption, see World Bank, 2006c, pp. vii, ix, 2–4 and 38–47.

[30] Angola, Azerbaijan, Bosnia and Herzegovina, Burundi, Cambodia, Côte d'Ivoire, Democratic Republic of the Congo, El Salvador, Georgia, Guatemala, Guinea-Bissau, Haiti, Liberia, Mozambique, Namibia, Papua New Guinea, Rwanda, Sierra Leone, Solomon Islands, Tajikistan and Timor-Leste.

[31] OECD, 2008a and the authors' calculations; World Bank, 2007a and authors' calculations.

[32] The first group (SGR) includes those countries that have attained reasonably strong post-conflict economic growth and meet two criteria: (1) post-war GDP per capita growth averages 2 percent per year or higher and (2) average post-conflict growth rate is higher than pre-conflict, hopefully indicating a break with the past or a transition to a new, higher growth path. The second (WGR) includes those that have experienced weaker post-conflict growth and do not meet either criterion. The methodology for constituting these groups is further discussed in Chapter 4.

[33] Of course, the nature of the relationship and possible causality cannot be inferred from this observation alone.

[34] In contrast, around 45 percent of funds allocated under the 'Marshall Plan' were spent on energy and transport infrastructure. See: Kozul-Wright and Rayment, 2007, chapter 7; Brown and Redvers, 1953.

[35] World Bank, 2006c.

[36] World Bank, 2006c.

[37] For more information, see World Bank, 2007b.

[38] World Bank, 2005b.

[39] Hodgson, 2004; MacDonald, 2005. These gaps have all too often been filled by foreign contractors. In Afghanistan, for example, among 12 foreign transport and logistics companies who made average initial investments of only US$67,857, the average annual income was US$1,018,571, even in their first years of operation. In other words they made a 1,500 percent rate of return on their investments. Many of these were merely operating from a single-room office or a hotel by sub-contracting to existing airlines or individual Afghan truckers. See MIGA, 2005.

[40] Prior to conflict, none of the 36 larger construction contractors in East Timor were owned by Timorese, and none of the core technical staff in the electricity sector was Timorese. See World Bank, 1999.

[41] Schwartz et al., 2004.

[42] Anand, 2005.

[43] Schwartz et al., 2004.

[44] ILO, 2003. A number of policy options exist; they range from labour-intensive technologies through to capital-intensive (or equipment-intensive) technologies — with labour-based equipment-supported (LBES) and equipment-based labour-supported (EBLS) technologies at intermediate points on the spectrum.

[45] Shone, 2003.

[46] House of Lords, 2004.

[47] Shone, 2003.

[48] Boyce, 2002, p. 17.

[49] ILO, 2003.

[50] Kibreab, 2003. The same policy has been criticized as having gone rather too far, and restricting technical assistance even in areas where there was a definite lack of local skills.

[51] For a full description of the modalities of this technique, see Tournée and Esch, 2001.

[52] Goovaerts et al., 2005, p.18; ILO, 2007, pp. 145–146.

[53] We use 'human capital' in Gary Becker's sense of the stock of knowledge, skills and aptitudes embodied in labour and that has economic value. See Becker, 1993, p. 390. He has more recently extended the definition to include health, although he acknowledges that health as human capital relies on somewhat different concepts. See Becker, 2007.

[54] Chen et al., 2007. Some of the most struggling education systems may not have been included in this analysis due to data constraints. Enrolment rates, therefore, may be lower than reported because conflict-affected countries included here are predominantly those where the state did not collapse completely and some education capacity was maintained.

[55] Chen et al., 2007. This conclusion is based on an analysis of 25 conflict-affected countries, but excluded a number of countries (Afghanistan, Angola, Bosnia and Herzegovina, Burundi, Rwanda, Sierra Leone, Somalia and others) because of lack of data. On balance this would suggest that enrolment is likely worse than is reported here since the conflict-affected countries that are included are predominantly those where the state did not collapse completely during conflict and some education capacity was maintained.

[56] de Sousa, 1999, as referenced in Orero et al., 2007, p. 8.

[57] World Bank, 2005a.

[58] In East Timor, for instance, 80 percent of secondary school teachers before the conflict were Indonesian and they left following the secession. World Bank, 2005a.

[59] Dennis and Fentiman, 2007.

[60] WHO, 2007.

[61] Chen et al., 2007. The infant mortality rate is calculated as the number of infants per 1,000 live births who die before their first birthday.

[62] Data from Bustreo et al., 2005.

[63] Chen et al., 2007.

[64] Chen et al., 2007.

[65] Vaux and Visman, 2005.

[66] See Section 3.2 for more information about global trends for ODA allocations.

[67] Vaux and Visman, 2005.

[68] Pavignani, 2005; Vaux and Visman, 2005.

[69] Smith and Vaux, 2003.

[70] Vaux and Visman, 2005.

[71] Vaux and Visman, 2005, p. 3.

[72] Vaux and Visman, 2005.

[73] INEE, 2005; Simler, 2004.

[74] World Bank, 2005a.

[75] Vaux and Visman, 2005.

[76] Vaux and Visman, 2005.

[77] Vaux and Visman, 2005; WFP, 2005.

[78] Specht, 2003.

[79] York, 2007.

[80] Sommers, 2006b.

[81] Pavignani, 2005, p. 7.

[82] "Rehabilitation of the health service reinforced the pre-conflict urban bias of service provision," Vaux and Visman, 2005, p. 69.

[83] Waters et al., 2007, p. 7.

[84] Waters et al., 2007.

[85] Pavignani, 2005, p. 17. In the Democratic Republic of the Congo, a variety of locally grown initiatives have emerged to cope with the shortage of drugs and the disarray of the supply system. These include an autonomous non-profit supply agency operating in the Eastern region, which has become a model for similar agencies created in nine other regions (with plans to expand it to cover new areas). Donors have provided start-up funds before progressively reducing their support once the agencies have become established and are more self-sufficient. The new centralized purchasing and decentralized distribution systems supply public health facilities and NGOs and serve about one third of the Congolese population in open competition with private for-profit suppliers. See Pavignani, 2005.

[86] World Bank, 2005c, as cited in the High Level Forum on the Health MDGs, 2005.

[87] Pavignani and Colombo, 2001.

[88] Vaux and Visman, 2005, based on a case study.

[89] Vaux and Visman, 2005.

[90] Dennis and Fentiman, 2007.

[91] See examples from the Democratic Republic of the Congo in Pavignani, 2005.

[92] Mcleod and Davalos, 2007, Box 1.

[93] In 2007, there were 19 active DDR programmes worldwide. See Camarés and Sanz, 2008. UNDP in particular has supported DDR in peacekeeping contexts in Afghanistan, Angola, Côte d'Ivoire, the Democratic Republic of the Congo, El Salvador, Haiti, Liberia, Mozambique, Sierra Leone and Sudan. UNDP support for DDR in non-peacekeeping contexts has included Central African Republic, the Republic of Congo, Comoros Islands, Indonesia, Nepal, Niger, Somalia, Solomon Islands and Uganda. See UNDP, 2005c.

[94] This section draws on UNDP, 2005c.

[95] Which includes the collection and destruction of small arms, light weapons, unexploded ordnance, deployed mines, ammunition and explosive stockpiles.

[96] Various forms of so-called transitional subsistence support (TSS) packages have been employed, cash-based or in-kind. Afghanistan's New Beginnings Program initially used cash payments (two installments of US$100), before deciding to rely on in-kind support packages instead—consisting of a medal of honour, a certificate of honorable discharge for services, a *shalwar kameez* (clothing) and a severance package including 126 kilograms of food—after it found evidence of commanders extorting the cash payment from their soldiers. See UNDP, 2005c.

[97] The reintegration phase as used here encompasses both the United Nations Department for Peacekeeping Operations (UNDPKO)'s reinsertion and reintegration phases. See UNDPKO, 1999, p.15.

[98] The definition and scope of what is considered 'reintegration' is actually a central issue (discussed later in the chapter).

[99] Ideally, the various employment generation and area-based development programmes discussed in a subsequent section should be an integral component of the reintegration effort. Likewise, rebuilding social capital with and within communities is also essential.

[100] After almost 20 years of civil war in Liberia, illiteracy was found to be widespread among ex-combatants. In Sierra Leone, Humphreys and Weinstein found that more than 30 percent of ex-combatants had never attended school. Such cases obviously require some creativity to fill these large gaps. See Humphreys and Weinstein, 2004.

[101] UNDP, 2005c, p. 49.

[102] "A potentially volatile and dangerous situation was averted when thousands of ex-combatants in Sierra Leone were meaningfully employed in short-term projects to rebuild their communities. UNAMSIL's 'Stop-Gap Programme' employed some 6,000 ex-combatants as well as 1,500 community members in labour-intensive, quick-impact community infrastructure and agricultural development projects. These projects were implemented in a sociable environment of communal meals and organized sport. The fact that the former combatants, together with the communities, rebuilt infrastructure destroyed during the war had a positive impact. These projects also became the starting point for creating several community-based organizations (CBOs)". Source: UNDP, 2005c, p. 49.

[103] Including the United Nations, the World Bank, the European Commission (EC) and bilateral donors.

[104] Recent examples of DDR MTDFs include the Multi-Country Demobilization and Reintegration Programme (MDRP) (see www.mdrp.org) for the greater Great Lakes Region, as well as Liberia's US$71 million UNDP-managed DDRR Trust Fund (see UNDP Liberia, 2007) and Afghanistan's Law and Order Trust Fund.

[105] UNDP, 2005c. Several assessments of MTDFs have been conducted, which concluded that MDTFs should be considered as best practice, with room for improvement. See Scanteam, 2007; Development Initiatives, 2006; Foster, 2007. See also the part on MDTFs in a subsequent section of this chapter.

[106] For a full description of such programmes, see the UN DDR Resource Centre training and operational tools sections. UN DDR Resource Center, 2008.

[107] Ohiorhenuan, 2007.

[108] UNDP, 2005c; Camarés and Sanz, 2008. Along the same lines, the need to exercise caution when supporting ex-combatants associations must also be underscored, as this may perpetuate their identity as soldiers and their adherence to previous commands structures, thereby delaying or preventing their effective reintegration in civilian activities.

[109] Camarés and Sanz, 2008.

[110] As something of a counter-example, in Liberia, the entry requirements were lowered mid-way through a DDR programme to possessing only 150 rounds of ammunition— perhaps to increase the likelihood that 'camp followers' would be included (if they were able to secure a spare weapon or ammunition). See Jennings, 2007.

[111] Camarés and Sanz, 2008, p. 21. Yet this is essential "not only to ensure their participation with the same conditions as the other combatants, but also to include their specific needs in the programming of the DDR (including protection against sexual violence), as well as those of the minors in their charge. During the quartering phase and the demobilization period, and although in the majority of cases former combatants are separated by sexes, not all women's needs are anticipated (hygiene and menstruation, care of their children, medical care in pregnancy, etc.)".

[112] Reportedly, UNICEF did a remarkable job by: 1) designing a parallel system for children from the primary point of disarmament; 2) drafting relevant policies and procedures; 3) installing a screening mechanism to determine child status; 4) training child responsibility officers and assigning child social workers at disarmament sites; 5) managing Interim Care Centres (ICC) for immediate referral after disarmament and 6. providing individual material support and counselling. Morse and Knight, 2002.

[113] UNDP, 2005c.

[114] Sperl and de Vriese, 2005.

[115] UNHCR, 2001.

[116] Sperl and de Vriese, 2005.

[117] Sperl and de Vriese, 2005.

[118] Ayalew, Dercon and Krishnan, 2003.

[119] Sommers, 2006b.

[120] Hanlon, 2005.

[121] Özerdem, 2003. 46 percent of vocational training courses were dedicated to auto mechanics until March 2001. During the four-month registration period, 25,723 former combatants signed up for the reintegration training programme.

[122] Information provided by UNDP Liberia, 2007.

[123] CSDG, 2003.

[124] Humphreys and Weinstein, 2004. The respondents might well be considered relatively fair-minded given that only 15 percent of them declared that they wanted to receive larger monetary allowances.

[125] Ohiorhenuan, 2007.

[126] In Liberia, a single EC/Danish Refugee Council cash-for-work project contributed to an infusion of US$500,000.

[127] UNDP, 2005c.

[128] UNDP, 2006.

[129] Özerdem, 2003.

[130] Ohiorhenuan, 2007; Jennings, 2007.

[131] Ohiorhenuan, 2007.

[132] UNDP Liberia, 2004; Ball and Hendrickson, 2005.

[133] Such as the EC, USAID, DFID and BMZ/KFW (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung/Kreditanstalt für Wiederaufbau* – German Federal Ministry for Economic Cooperation and Development/Credit Institution for Reconstruction).

[134] UNDP Liberia, 2004.

[135] UNDP Liberia, 2007, p. 8.

[136] UNDP, 2005c.

[137] UNDP, 2005c.

[138] UNDP, 2005c.

[139] Camarés and Sanz, 2008.

[140] Mcleod and Davalos, 2007.

[141] UNPBC, 2007, p. 4.

[142] OHR Economic Task Force Secretariat, 2002. See also Pugh et al., 2004.

[143] Save the Children staff are cited as sources by Keen, 2001.

[144] UNDP and ILO, 2008.

[145] Moore et al., 2003, pp.11, 69–70.

[146] McLeod and Davalos, 2007.

[147] McLeod and Davalos, 2007.

[148] Shone, 2003.

[149] ILO, 2003.

[150] Oreroet al., 2007.

[151] Jacobsen, 2004.

[152] Jacobsen, 2005. As of 2003, 250 women received goats; upon receipt of a goat, each woman was expected to care for the animal and then to pass along any kids to the next person in line. Part of the rationale for goats is that they are cheaper and more easily moved than cattle.

[153] Goovaerts et al., 2005.

[154] Chambers, 1988, p. 1.

[155] UNDP, 1999.

[156] Bojicic-Dzelilovic and Causevic, 2007.

[157] UNODC, 2007.

[158] Pugh et al., 2004.

[159] It is of course, easier to contemplate trade-offs in the diamond trade than in the opium trade.

[160] Weinstein, 2005.

[161] Rubin, 2000.

[162] van Ham and Kamminga, 2006–2007.

[163] Cramer and Goodhand, 2002.

[164] Sources in Addison, 2001.

[165] Addison, 2001.

[166] Pugh et al., 2004.

[167] Kamphuis, 2005.

[168] UNODC, 1999.

[169] For example, international donor pledges to Sierra Leone in 2000 did not match the US$25–125 million the Revolutionary United Front (RUF) could earn annually from trading diamonds. See Pugh et al., 2004.

[170] UNODC, 2005.

[171] UNODC, 2007.

[172] UNODC, 2005.

[173] Pons-Vignon and Lecomte, 2004.

[174] For example, during the course of long civil war in Colombia, the growing importance of cocaine as a source of rebel and paramilitary financing has led to massive seizures of smallholder farms and to the consolidation of a new and pernicious form of *latifundias*, in which former landowners have been reduced, at best, to indentured sharecroppers. See: Richani, 2003; Elwahary, 2007; Daudedelin, 2003.

[175] Especially when demining has been slow as in Angola, Cambodia and Mozambique. See Cotula et al., 2006; GICHD, 2007.

[176] Fitzpatrick, 2002b.

[177] Fitzpatrick, 2002b.

[178] For example, see Wily, 2003 for an overview of land rights issues in Afghanistan. It should be noted that ex-combatants do not always find it difficult to access land. In Ethiopia, for example, ex-soldiers and non-soldiers had access to very similar amounts of land. The problem instead may have been the low value of livestock owned by ex-soldiers. Ayalew et al., 2004.

[179] Richards et al., 2004.

[180] COHRE, 2005.

[181] COHRE, 2005, p. 3.

[182] Colletta and Cullen, 2000.

[183] See de Passos, 2004, for an Angolan case study.

[184] Esser, 2004.

[185] Trefon, 2004.

[186] Both these examples are taken from Giovannoni, 2005.

[187] Richards et al., 2004.

[188] CSVR, 2007.

[189] Sources in Pugh et al., 2004.

[190] Banfield et al., 2006.

[191] Banfield et al., 2006.

[192] Banfield et al., 2006.

[193] European Commission, 2001. The outbreak of hostilities involving Russia and Georgia in August 2008 may have compromised such collaboration.

[194] BBC News, 30 August 2006.

[195] Personal transformation means the psychological effects of habitual and regular contact, mutual confidence and trust. For example, the Business for Peace Alliance in Sri Lanka, founded with support from UNDP, fosters business-to-business relationships across the ethnic divide. Says one participant: "We had no business or personal connections with the south during the war. ... There was a little friendship over tea, but we ate lunch separately. In those two days, we met many southerners. But soon after we became friends". Banfield et al., 2006, p. 115. Secondly, industrial interlinkages

have potential to foster transformed relationships between groups – creating a shared vision, interests and needs. Banfield et al., 2006. This is often easier with businesspeople than other groups: there are already shared identities (businesspeople affected by conflict), mentalities (pragmatism and 'business sense'), interests (doing more business) and to some degree language (talking 'shop' with the other side) Banfield et al., 2006. Thirdly, industrial interlinkages have the potential to transform the wider conflict context: business people are well connected (to other business people, and to other members of their communities) and often publicize their involvement in these initiatives. For example, business people involved in the Peres Center for Peace's initiatives lobbied for reforms to governance and legal frameworks that were both obstacles to business and symptomatic of the conflict. Banfield et al., 2006.

[196] BBC News, 30 August 2006.

[197] See in particular Bouta and Frersks, 2002.

[198] Evidence from Angola, Ethiopia and Mozambique in Addison, 2003.

[199] Brück, 2001b, as cited in Orero et al., 2007.

[200] Human Rights Watch, 1996, cited in Orero et al., 2007, documents this trend in Rwanda.

[201] Examples from Eritrea in Addison, 2003.

[202] "Accordingly, thousands of widows and daughters currently have no legal claim to their late husband's or father's homes, land or bank accounts because they are women". Human Rights Watch, 1996, cited in Orero et al., 2007, p. 12.

[203] These trends have occurred even where females have formed significant parts of the war effort. In Eritrea, for example, female ex-combatants, after many years in a rebel movement in which ethnic, religious and gender differences had been set aside, returned to their communities to face family members and neighbours who expected them to go back to traditional gender roles, leading to a high degree of frustration for many. See Goovaerts et al., 2005; Sørensen, 1998; Kingma, 2001.

[204] Morduch (1990) showed that income could not be treated as exogenous as the ability to deal with uncertainty and unfavourable outcomes had an impact on production choices made by farmers, with more vulnerable farmers choosing less risky crops and methods to reduce the risk of greater income variability, at the expense of expected income. See also Dercon, 2004.

[205] Justino and Verwimp, 2006, cited in Orero et al., 2007. By contrast, however, loss of labour did not affect post-war poverty, unless the loss was violent.

[206] Mozambican Government figures in Brück, 2004.

[207] Morduch, 1999; Helms, 2006.

[208] Drawn from Marchal, 1996; Nenova and Harford, 2004.

[209] See Hudon and Seibel, 2007.

[210] MIX provides a database on financial and portfolio data of micro-finance institutions based on their voluntarily participation in this scheme, which aims to establish industry performance standards. MIX is a non-profit organization supported by the World Bank's Consultative Group to Assist the Poor and a number of other institutions. See MIX, 2008.

[211] A microcredit project started as early as 1991. Asia Resource Centre for Microfinance, 2005.

[212] Nagarajan, 2006. MISFA is the first apex microfinance organization in a conflict-affected country that has transformed itself from a government entity to a local limited liability company governed by an independent board of directors.

[213] The same pattern is observed in non-conflict settings. See *Eritrea:* Manalo, 2003*; Papua New Guinea:* Shaw and Clarke, 2004; *Bosnia and Herzegovina*: author's calculations.

[214] Bojicic-Dzelilovic and Causevic, 2007.

[215] The discussion here has drawn heavily on the background paper by Bojicic-Dzelilovic and Causevic, 2007.

[216] The first phase of LIP covered 1997–2000; the second phase lasted from March 2002 to June 2005.

[217] World Bank, 2000a.

[218] World Bank 2005e; World Bank, 2007a.

[219] MI-BOSPO, 2006.

[220] Association of Microfinance Institutions in Bosnia and Herzegovina, 2007. The unemployment rate in Bosnia and Herzegovina is highest among the under-35 age group.

[221] Larson et al., 2004.

[222] Heen, 2004.

[223] Bojicic-Dzelilovic and Causevic, 2007.

[224] IFAD, 2008.

[225] There is a substantial data problem in measuring remittances, since such a high proportion of remittances are sent through unofficial channels and are thus not recorded in national accounts statistics. For example, according to official figures, the top 10 remittance-sending countries do not include Canada, Japan or the United Kingdom, which seems implausible.

[226] In 2004, official remittances were equivalent to 10 percent or more of the GDP of Albania, Bosnia and Herzegovina, Dominican Republic, El Salvador, Haiti, Honduras, Jamaica, Jordan, Kiribati, Lebanon, Lesotho, Moldova, Nepal, Nicaragua, Philippines, Samoa, Serbia and Montenegro, Tajikistan, Tonga and Yemen, of which many are countries that were affected by armed violence one way or another. See World Bank, 2006d. Furthermore, for post-conflict countries in our list for which data is available (Figure 3.15), remittances represent on average 8.2 percent of GDP, as opposed to 6 percent for 71 non-conflict countries with data. See World Bank, 2006b.

[227] Schrieder and Knerr, 2000; Gubert, 2002; Collier et al., 2003. As cited in Lindley, 2007.

[228] World Bank, 2006e.

[229] Lindley, 2007, p. 28.

[230] In aggregate, data on the use to which remittances are put are rather difficult to find, especially since such a high proportion of total remittances are transmitted informally and thus cannot be tracked on a large scale (see Endnote 244).

[231] Adelman et al., 1988, cited in Lucas, 2005; Adelman and Taylor, 1990.

[232] It is widely believed that the large number of young people who hang about in cities such as Monrovia and Freetown survive mainly on remittances.

[233] Hansen, 2004.

[234] The term 'Dutch disease' derives from the 1960s when The Netherlands discovered large reserves of natural gas off shore. The natural gas boom that followed led to a sharp appreciation of the Guilder, which undermined exports of tulips and dairy products, eliminating many jobs in those sectors. For more information see Ebrahim-Zadeh, 2003.

[235] Lucas, 2005, p. 135.

[236] Lindley, 2007; de Bruyn and Wets, 2006; Glytsos, 2002, cited in Lucas, 2005.

[237] Orozco, 2006. Also see evidence from Somaliland: a survey of 538 remittance recipients found that 96 percent of them use the money exclusively for regular living expenses, which sometimes include human capital investments in education. Lindley, 2007.

[238] Orozco, 2006.

[239] Collier and Hoeffler, 2004a.

[240] Marchal, 2005, p. 222.

[241] See Maimbo, 2006, for more details.

[242] See http://www.sendmoneyhome.org/.

[243] de Bruyn and Wets, 2006.

[244] Ionescu, 2005. Other initiatives and sources are listed in Carling, 2004, p. 6.

[245] Sharma, 2007. So far the most notable examples are in Mexico, but the Haitian bank Fonkoze has been encouraging Haitian migrants to form similar associations in Haiti. Sharma meanwhile emphasizes that this is not universally a positive thing: not everyone is a good entrepreneur.

[246] A typology of other informal systems can be found in Pieke et al., 2005, pp. 19–24.

[247] A similar system developed in Afghanistan. See Lonnberg, 2003.

[248] PCNAs are "multilateral exercises undertaken by the UNDG and the World Bank in collaboration with the national government and with the cooperation of donor countries. PCNAs are increasingly used by national and international actors as an entry point for conceptualizing, negotiating and financing a common shared strategy for recovery and development in fragile, post-conflict settings." UNDG, 2008.

[249] World Bank/IMF, 2005.

[250] World Bank/IMF, 2005.

[251] The Country Policy and Institutional Assessment (CPIA) is a policy rating system developed by the World Bank in the 1970s to assess a country's capacity to make effective use of development assistance. Countries receive both an overall score and ratings for sixteen CPIA criteria grouped into four clusters of equal weight: Economic Management, Structural Policies, Policies for Social Inclusion/Equity, and Public Sector Management and Institutions. Countries are rated on a scale of 1 (low) to 6 (high) annually. Following an external evaluation in 2004 the CPIA was revised and made public. For more details, see Minson, 2007.

[252] Stewart et al., 2007b.

[253] Stewart et al., 2007b.

[254] Newbury and Baldwin, 2000.

[255] WIIBF, 2008.

Macroeconomic Policy Considerations in Post-Conflict Recovery

Billboard advertising an international money transfer company, Mogadishu, Somalia, October 2004
(Sven Torfinn/Panos Pictures)

4.1 Introduction

One of the most daunting challenges facing countries in post-conflict recovery is designing and implementing a macroeconomic policy regime that is appropriate to their particular circumstances. The high risk of conflict recurrence detailed in Chapter 2 creates an additional sense of urgency. Ideally we could visualize a virtuous circle whereby peace allows communities to regain their land and livelihoods, which raises their incomes. Increasing incomes not only contribute to lowering the risk of conflict relapse, they raise the opportunity cost of conflict relapse to potential combatants. But economic recovery is a fragile, complex process, and its determinants are as much political as they are economic. Should the process be derailed for any reason, political or economic, the unravelling could also be cumulative.

Political and economic stability tend to be mutually reinforcing, and yet in the immediate aftermath of war tensions often arise between political and economic stabilization objectives. For instance, large post-war fiscal deficits may induce governments to defer salary payments, fuelling discontent and unrest.[1] It is critical, therefore, for post-conflict economic policy design to recognize the political dimension and the incremental nature of the recovery process.

Lowering the probability of conflict relapse and consolidating peace have to be fundamental priorities in the making of post-conflict macroeconomic policy. As discussed in Chapter 2, conflict is typically preceded by a combination of horizontal inequalities, a skewed distribution of the economic surplus and resource rents, and poor overall socioeconomic performance. In other words, almost by definition, conflict suggests that some groups have not benefited from or contributed to economic activity as much as they could have. Further, conflict also implies that some groups have been seriously harmed or have harmed others, creating intense mutual resentment.

> Lowering the probability of conflict relapse and consolidating peace have to be fundamental priorities in the making of post-conflict macroeconomic policy.

Recognizing this reality, economic policy must aim not just to rebuild what was destroyed by war or recreate the *status quo* from before the conflict; it must seek to break with the past. This means pursuing policies that are conducive to more inclusive growth and enhanced human development. Stronger growth is associated with rising incomes and expanding opportunities for human development. In the post-conflict setting, economic policy must consciously and actively cultivate broad-based growth and development as part of the peace consolidation agenda.

Another implication of the structural, institutional and social capital damage brought by conflict is that repair will take time, and recovery must be an incremental process. Policy makers must rank multiple high-order priorities and build on the early dividends and the promise of peace to convince domestic and external actors to engage and invest. Such an approach will increase the likelihood of economic recovery as a self-fulfilling prophecy. The special challenge for post-conflict macroeconomic policy then is to kick-start the engine of economic activity, stoke it continuously without choking it off, and create an enabling environment for long-term change based on a cumulative strengthening of the indigenous drivers of economic recovery.

For post-conflict countries, this is a tremendous task. Conflict typically leaves countries with severe macroeconomic problems. A shrunken economic base, moderate to high inflation, chronic fiscal deficits, high levels of external and domestic government debt and low domestic government revenues are among the more prominent features of these economies. These factors heavily constrain the functioning of the state and limit its ability to provide basic services, and often to cover its recurrent expenditures. The weak fiscal and current account positions signal difficulty in marshalling the resources required to jump-start the economy. A volatile international environment, characterized by trade fluctuations and hard-to-predict aid flows, results in considerable loss of policy maneuvrability. Concomittantly, growing arrears to both foreign and domestic creditors disqualify many post-conflict countries from immediate debt relief.

The task of breaking the so-called conflict trap is not insurmountable. There are well-known historical examples of countries that enjoyed a successful recovery in the term's most stringent sense, such as post-World War II (WWII) France and Vietnam since the 1980s.[2] Even more recently, some much poorer war-affected countries have managed to break with the past and staged reasonable, even impressive recoveries. Mozambique and Cambodia are examples. Luck may have played a role, but in most cases these countries have managed creatively the instruments and resources of economic policy that governments have at their disposal. The lessons from successful recoveries indicate that, in addition to the usual fiscal, monetary and exchange rate policies, the post-conflict policy regime must include employment policy and business environment policy.

These issues are the subject of this chapter. As with other dimensions of recovery described in preceeding chapters, macroeconomic policy must be conflict-sensitive, context-appropriate and pragmatic in order to sustain recovery as well as peace. The next section describes the different dimensions of economic recovery and highlights the diverse experiences and trajectories of 29 countries that have emerged from civil conflicts since the end of the Cold War in 1989. Many of these countries were not performing well even before conflict; in fact, in roughly a third of them growth was negative before conflict. Also, during conflict, GDP per capita fell by more than 25 percent in over half of the sample. Nevertheless 11 out of the 29 countries have staged fairly robust economic recoveries, with post-conflict GDP per capita growth averaging 4 percent or higher.[3] Perhaps more importantly, these countries grew significantly faster than before conflict started (Table 4.1). We recognize, however, that growth alone cannot fully define recovery. We therefore complement the growth story with a review of inflation and inclusiveness as key dimensions of economic recovery.[4]

The following section examines more closely the macroeconomic drivers of recovery. We look for elements in the policies and the policy process that may explain the diversity of recovery experiences. We review approaches to monetary policy and fiscal policy as well as the management of ODA. We also look at trade and investment facilitation, and debt management. We note broad differences with respect to sequencing, nature and pace of reforms, as well as issues of competitiveness and policy credibility. We review the question of restoring monetary and financial oversight, and we examine the major fiscal considerations: revenue mobilization, the tax regime and fiscal autonomy. On the expenditure side, we examine how countries in recovery have balanced the tension between the requirements of macroeconomic stability against sustaining social and political stability.

4.2 Economic recovery in practice

How is economic recovery best described, given its multifaceted and multidimensional nature? This section attempts to capture and describe the various aspects of economic recovery as it is actually happening in a group of 29 post-conflict countries for which reasonably robust data are available.

Determining how far a country is along the path of economic recovery requires some criteria and benchmarks to assess progress. As a first approximation, the growth of per capita output is used to get a sense of the extent to which countries are recovering. We split a set of 29 countries where conflicts ended after 1989 into two groups: one group contains those countries that have experienced sustained GDP growth per person for a significant period after conflict, the other is comprised of those that have not.[5] The first group includes those countries that have met two criteria:

- post-war GDP per capita growth averages 2 percent per year or higher;[6]
- average post-conflict growth rate is higher than pre-conflict, hopefully indicating a break with the past or a transition to a new higher growth path.

The results indicate that just about two-thirds (18) of the countries for which data are available have fared reasonably well in the first few years after conflict. As introduced in Chapter 3, we refer to this group as SGR (Strong Growth Recovery) countries, with perhaps half of the members of this group having clearly moved to a much stronger and sustained growth path. The other one-third (11) of countries in our set have experienced significantly weaker recovery. We call them WGR (Weak Growth Recovery) countries. Tables 4.1 and 4.2 list the countries in each group.[7]

Table 4.1 **Strong Growth Recovery (SGR) countries**

Country, start and end dates considered	Average annual pre-conflict[1] GDP per capita growth	Span of conflict (years)	Average annual in-conflict GDP per capita growth	Number of years post-conflict[4]	Average annual post-conflict GDP per capita growth	Post-minus pre-conflict growth[5] (percentage points)
Afghanistan 1978–2001	.6%	24	-6.5%	6	10.4%	7.8
Angola 1975–2002	3.4%	28	-1.3%	5	11.8%	8.4
Azerbaijan 1991–1994	-2.2%	4	-17.8%	13	9.4%	11.6
Bosnia and Herzegovina 1992–1995	-11.9%	4	3.6%	12	10.5%	22.4
Cambodia 1970–1991	NA	22	-4.0%	16	4.8%	NA
Chad 1965–1990	NA	26	-0.3%	17	2.3%	NA
Congo, Dem. Rep. of the 1996–2001	-4.0%	6	-5.2%	6	2.6%	6.6
Croatia 1991–1993	NA	3	-12.9%	13	4.5%	NA
Ethiopia 1974–1991	1.1%	18	-0.9%	16	2.3%	1.2
Georgia 1991–1994	2.4%	4	-26.4%	13	7.7%	NA
Lebanon 1975–1990	0.0%	16	-5.0%	17	3.7%	3.7
Liberia 1989–2003	-2.0%	15	-9.3%	4	2.8%	4.8
Mozambique 1976–1992	1.6%	17	-1.4%	15	5.3%	3.7
Rwanda 1990–1994	0.7%	5	-8.4%	13	4.0%	3.3
Solomon Islands 1998–2003	0.3%	6	-5.7%	4	3.2%	3.0
Sierra Leone 1991–2001	-0.1%	11	-7.3%	6	8.0%	8.1
Tajikistan 1992–1997	-2.3%	6	-15.2%	10	7.1%	9.5
Uganda 1979–1991	-1.0%	13	-2.0%	16	2.9%	3.8
Average	**-0.8%**	**12.7**	**-7.0%**	**11.2**	**5.7%**	**7.0**

[1] Starting from 1970 unless otherwise mentioned
[2] Data start in 1991
[3] Data start in 1986
[4] Up to 2007
[5] A positive difference indicates an improved performance over GDP per capita pre-conflict growth rates, or a potential break with the past

Source: Authors' calculations based on World Bank, 2007a; IMF, 2007a; and Heston, Summers and Aten, 2006.

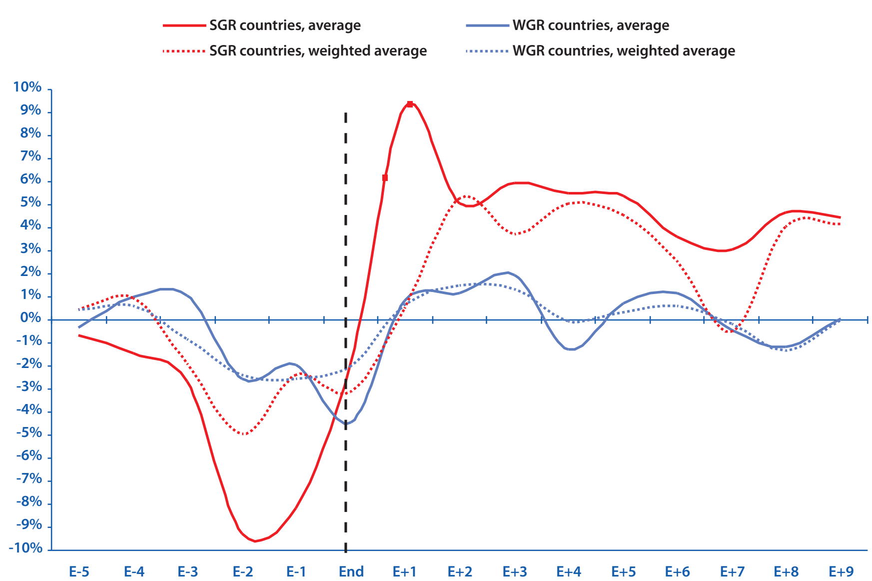
Table 4.2 **Weak Growth Recovery (WGR) countries**

Country, start and end dates considered	Average annual pre-conflict [1] GDP per capita growth	Span of conflict (years)	Average annual in-conflict GDP per capita growth	Number of years post-conflict [2]	Average annual post-conflict GDP per capita growth	Post-minus pre-conflict growth [3] (percentage points)
Burundi 1991–2002	1.8%	12	-2.9%	5	0.4%	-1.3
Congo, Rep. of 1993–1999	2.1%	7	-1.4%	8	1.8%	-0.4
Côte d'Ivoire 2002–2003	-0.6%	2	-3.2%	4	-0.1%	0.5
El Salvador 1979–1991	2.0%	13	-2.5%	16	1.9%	-0.2
Eritrea [4] 1974–1991	1.1%	18	-0.9%	16	1.2%	NA
Guatemala 1965–1995	NA	30	0.9%	12	0.6%	NA
Guinea-Bissau 1998–1999	0.4%	2	-13.2%	8	-3.2%	-3.5
Haiti 1991–1995	-0.3%	5	-4.9%	12	-0.1%	0.1
Namibia 1973–1989	-2.8%	17	-1.0%	18	1.6%	4.4
Nicaragua 1978–1990	1.7%	13	-6.8%	17	0.8%	-0.9
Papua New Guinea 1989–1996	0.7%	8	1.7%	11	-1.2%	-1.9
Average	**0.6%**	**11.5**	**-3.1%**	**12**	**0.3%**	**-0.4**

[1] Starting from 1970 unless otherwise mentioned
[2] Up to 2007
[3] A positive difference indicates an improved performance over GDP per capita pre-conflict growth rates, or a potential break with the past
[4] Until the end of the war in 1991 Eritrea is cosidered as part of Ethiopia and the same figures are reported for both countries

Source: Authors' calculations based on World Bank, 2007a; IMF, 2007a; and Heston, Summers and Aten, 2006.

Figure 4.1 **GDP per capita growth: SGR versus WGR countries**[8]



Note: The solid lines are average per capita GDP growth for all countries with data. The dotted lines are weighted average per capita GDP growth for all countries with data (weight is share of country's population in total group's population). See Data Appendix for details.

Source: World Bank, 2007a; IMF, 2007a; Heston, Summers and Aten, 2006.

Figure 4.1 shows the average GDP per capita growth trajectories of both groups pre- and post-conflict. It shows that the average per capita growth for SGR countries was significantly lower than that of the WGR group during conflict (–7 vs –3.1 percent on average). At the same time, average per capita growth rebounds more sharply and remains higher for SGR than for WGR countries. Admittedly, such an observation must be viewed with caution. It could be the case that the post-war GDP per capita of SGR countries grows much faster than that of the WGR countries simply *because* of the sharper drop during, and especially, as Figure 4.1 shows, *right before* the end of conflict.[9]

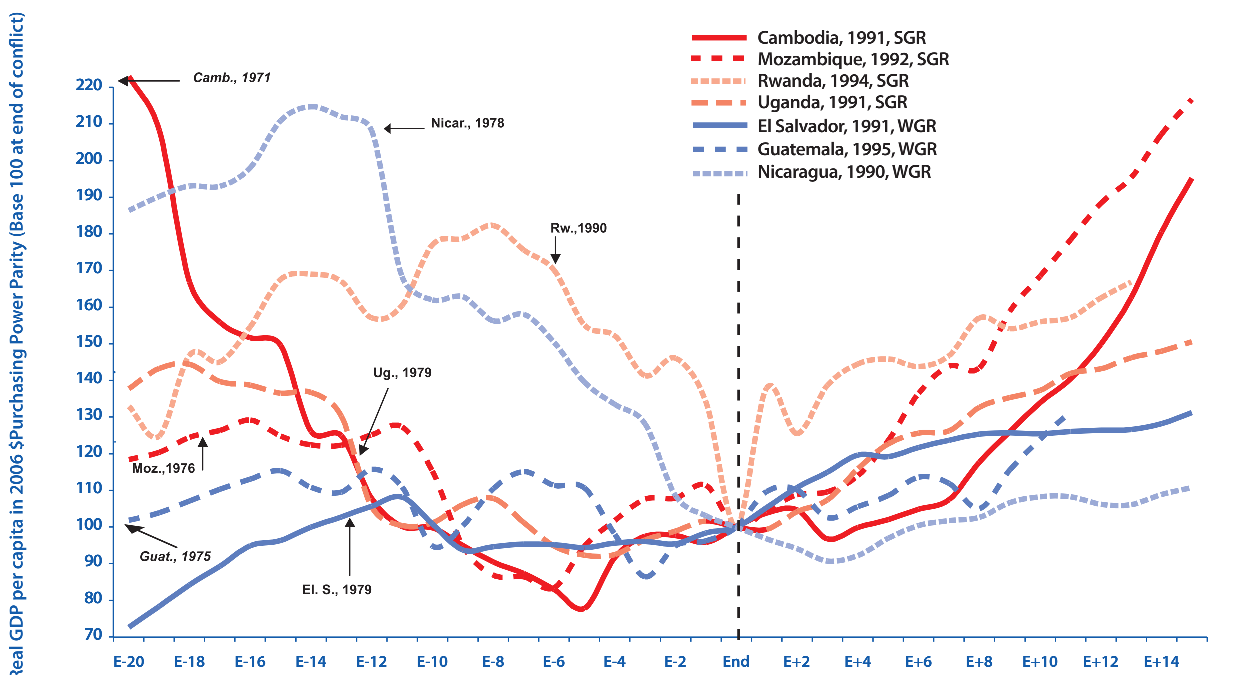
Indeed, such early but transient 'rubber band' effects have been observed in several countries including Bosnia and Herzegovina, Georgia and Lebanon, as well as Rwanda, Sierra Leone and Afghanistan, which grew at double-digit rates on average for the first three years after conflict.[10] However, as Figure 4.1 also shows, it is remarkable that when weighted by the share of population in the sample, the drop in growth rate is quite similar for both groups, but their post-conflict trajectories still diverge substantially.

The true nature of an early and sharp post-conflict growth surge can be difficult to discern if it is not sustained.[11] It is noteworthy that growth remains significantly higher over a longer period for SGR countries than for WGR countries, both in terms of simple and weighted averages.[12] It could be conjectured that an early surge in growth brings benefits and dividends that help kick-start the recovery process and put the country on a higher growth path.

The average post-war growth performance in the SGR group is 5.7 percent annually, in sharp contrast to a near stalling (0.3 percent) on average in the WGR group over very similar average recovery periods of about 11–12 years.[13] It is worth pointing out that the average pre-conflict growth performance of WGR countries was actually better than that of the SGR countries: 0.6 percent vs –0.8 percent (0 percent without the strongly negative growth performance of Bosnia and Herzegovina). The difference in their medium-term trajectories is all the more striking. There does seem to be a significant difference between the 'growth experiences' of the members of the two groups.[14]

Within the SGR group, Cambodia, Mozambique, Rwanda and Uganda had impressive sustained GDP per capita growth as shown in Figure 4.2.

Figure 4.2 **GDP per capita in selected SGR and WGR countries (year conflict ended, group)**



Note: Arrows point to starting year of conflict, unless where conflict is ongoing over the entire period covered (Cambodia, Guatemala), in which case the arrow points to the first year of the series.

Source: IMF, 2007a. (estimates for 2007); Heston, Summers and Aten, 2006.

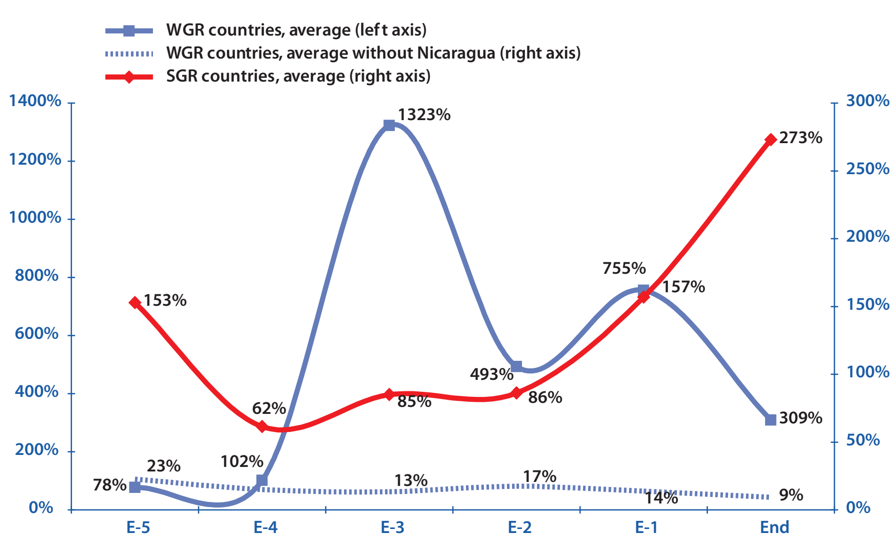
Cambodia and Mozambique display particularly impressive growth performances, with a doubling of their real GDP per capita within 15 years after war, at an average (annualized) growth rate of 5 percent and 5.5 percent, respectively. Uganda's real GDP per capita increased by 50 percent between 1991 and 2007 and Rwanda's by nearly 70 percent between 1994 and 2007 (at average growth rates of 2.9 percent and 4 percent, respectively). Even with such achievements, it took Mozambique and Uganda over 20 years (just about a generation) to reach (and, in the case of Mozambique, largely surpass) the highest level of GDP per capita they had achieved in the five years leading up to war. As of 2007, Cambodia and Rwanda still had not quite reached that level. El Salvador, with a decent 1.9 percent average annual growth rate since its 1991 peace accord (which puts it at the doorstep of the SGR group), has also surpassed its pre-conflict level of GDP per capita. Other countries, such as Guatemala and Nicaragua, seem not to have been able to find a path to sustained high growth.

An important manifestation of successful recovery is obviously the absence of conflict recurrence. On that count, stronger growth does seem to reduce the risk of conflict relapse, since only about one in five SGR countries have experienced major conflict recurrences, while the recurrence rate for WGR countries is about 40 percent, twice as high.[15]

4.3 Inflation and recovery

While the growth performace of countries affected by conflict varies, high inflation is typically its corollary. Sometimes hyperinflation occurs, as in Nicaragua where inflation reached 13,000 percent in 1987 (See Data Appendix). Figure 4.3 shows that inflation in the five years before the end of war can reach very high levels.[16] The average exceeds 1,300 percent for WGR countries three years before peace, but this is driven entirely by Nicaragua. Excluding this country, inflation is consistently and substantially lower for WGR countries in the five years leading to the end of conflict.

Figure 4.3 **Inflation before the end of war: SGR versus WGR countries**

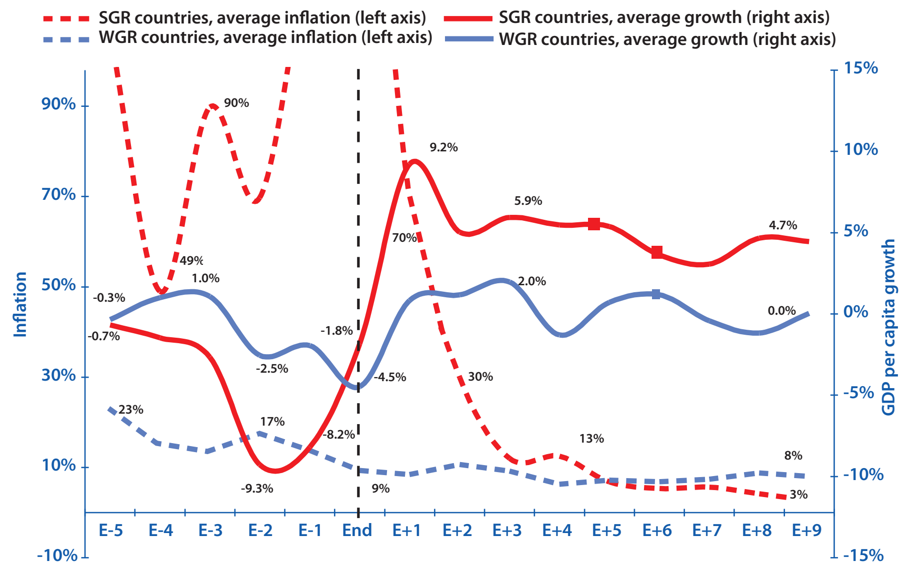


Note: Inflation measured as change in consumer prices (annual %). The SGR group does not include Afghanistan, Bosnia and Herzegovina, Croatia and Georgia; the WGR group does not include Namibia.

Source: IMF, 2007b.

Still excluding Nicaragua, the average rate of inflation in WGR countries remains lower than in SGR countries for several years (five or six) after the end of war, when the situation reverses with both rates falling to single digits (Figure 4.4). Interestingly, Figure 4.4 also shows that the stronger earlier growth performance of SGR countries was achieved in spite of high rates of inflation (70 percent one year after the end of war, when growth per capita reaches 8.9 percent), while WGR countries did not seem able to take much advantage of continuing reasonable inflation.

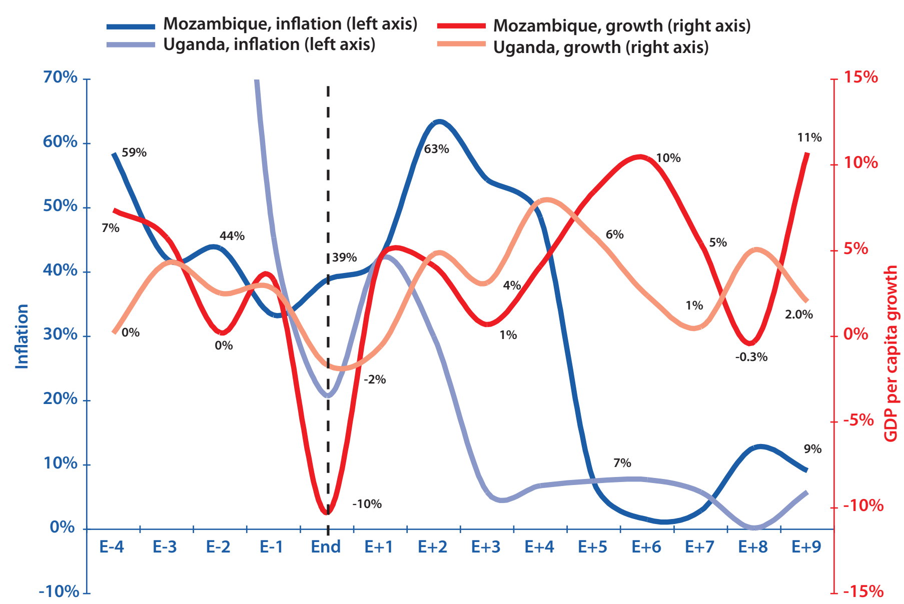
Figure 4.4 **Inflation and GDP per capita growth: SGR versus WGR countries**



Sources: IMF, 2007b; World Bank, 2007a.

There is also evidence of the complexity of the growth-inflation dynamic at the country level. The Republic of Congo, the Democratic Republic of the Congo, Chad and Burundi all brought down inflation to single digits the year after conflict ended. The Democratic Republic of the Congo and Chad had reasonably strong recoveries, but in both cases inflation was back in the double-digit range a few years later. Inflation remained low in the Republic of Congo, but the growth performance has been consistently poor. In Mozambique and Uganda, among the strongest growth performers, inflation averaged 50 percent and 25 percent per year, respectively, for four years after conflict, while average per capita growth exceeded 5 percent and 2.5 percent per year over the same period. Unambiguously, however, inflation abated as growth picked up (Figure 4.5).

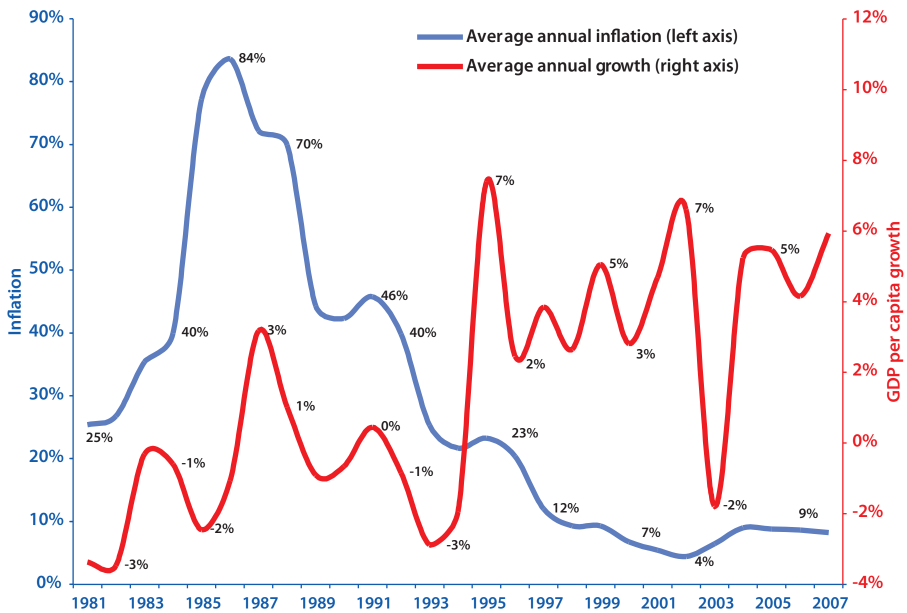
Figure 4.5 **Inflation and GDP per capita and in Mozambique and Uganda**



Source: IMF, 2007b.

Average inflation fell dramatically in SGR countries during the first five post-conflict years (and continued to drop later). Across all post-conflict countries, as Figure 4.6 shows, increasing growth is typically associated over time with declining inflation. Equally important perhaps, Figures 4.5 and 4.6 also suggest that high inflation rates and high growth rates are not incompatible, even though over the medium run they seem to be inversely correlated. In sum, these different results clearly indicate that low inflation is not a necessary or sufficient condition for high growth in the early recovery period and that recovery may temporarily combine high inflation and high growth rates.

Figure 4.6 **Inflation and GDP per capita growth in conflict-affected countries**



Note: Data for Angola, Cambodia, Chad, El Salvador, Ethiopia, Guatemala, Liberia, Mozambique, Nicaragua, Rwanda and Uganda, except inflation average excludes Nicaragua's 1986–1990 hyperinflation years.

Source: IMF 2007a.

Figure 4.7 **Growth incidence curve in Mozambique 1996–2002**

Source: James et al., 2005.

4.4 Growth inclusiveness and human development during recovery

Recovery is likely to be more sustainable when it benefits all, rather than only a small proportion of the population. It is now generally recognized that economic growth does not automatically benefit the poor. Where, for instance, the major driver of post-conflict economic growth is a capital-intensive resource extractive industry, the benefits may reach only a small fraction of the population. In Angola, for example, as in most mineral-rich countries, investment by foreign investors in the oil sector has led to high economic growth, but that growth has not yet generated significant backward or forward linkages to the broader economy nor generated substantial employment.[17]

On the other hand, when economic growth stems from activities that engage a large segment of the population and where the gains can be marshalled to broaden the tax base and provide revenue for services, a more inclusive outcome can emerge. Such an outcome can contribute to reducing the risk of conflict relapse because rising incomes tend to make combat less attractive—in other words, as previously noted, they raise the opportunity cost of engaging in conflict. There is some evidence that the stronger growth enjoyed by some countries has been associated with significant inclusiveness. A growth incidence curve for Mozambique, comparing 1996 (when the first major household survey took place) and 2003 shows that growth has been both rapid and broadly inclusive,[18] as the consumption of all groups increased between 2 percent and 5.5 percent during the period 1996 to 2002 (Figure 4.7). Though consumption of the bottom 2–3 percent of the population grew at just over 2 percent annually, in contrast to the 4.5–5 percent growth rates enjoyed by the richest deciles, this contributed to a significant decline in the prevalence of poverty, from just under 70 percent to about 54 percent.[19]

The main reason growth—as measured by growth in consumption—has been inclusive is its source in the agriculture sector, which employs the vast majority of the working population. In particular, investment by large private wholesalers in recreating grain markets has benefited food-deficit and poorer households.[20] The creation of livelihoods for small producers, especially in the agriculture and rural non-farm sectors, was thus an important by-product of macroeconomic reform. Yet Figure 4.7 also shows that the consumption gap between the rich and the poor widened during that time, highlighting the fact that inclusive growth does not necessarily mean 'pro-poor' growth (i.e. growth which benefits the poor disproportionately).

Uganda's mixed record on inclusive growth is also instructive. When agriculture boomed during the 1990s growth was inclusive. From 2000 to 2003, agricultural growth lagged, due in part to low coffee prices, and the majority of the rural poor saw their incomes drop. Overall, poverty fell sharply during the 1990s from about 55 percent to 34 percent, then rose somewhat to 38 percent in 2003.[21] Evidently, strong agricultural growth made growth more pro-poor and inclusive during the 1990s. These experiences highlight the importance of focusing on those sectors that employ the vast majority of the population if recovery is to be inclusive.

> Inclusive recovery requires that we focus on those sectors that employ the bulk of the population.

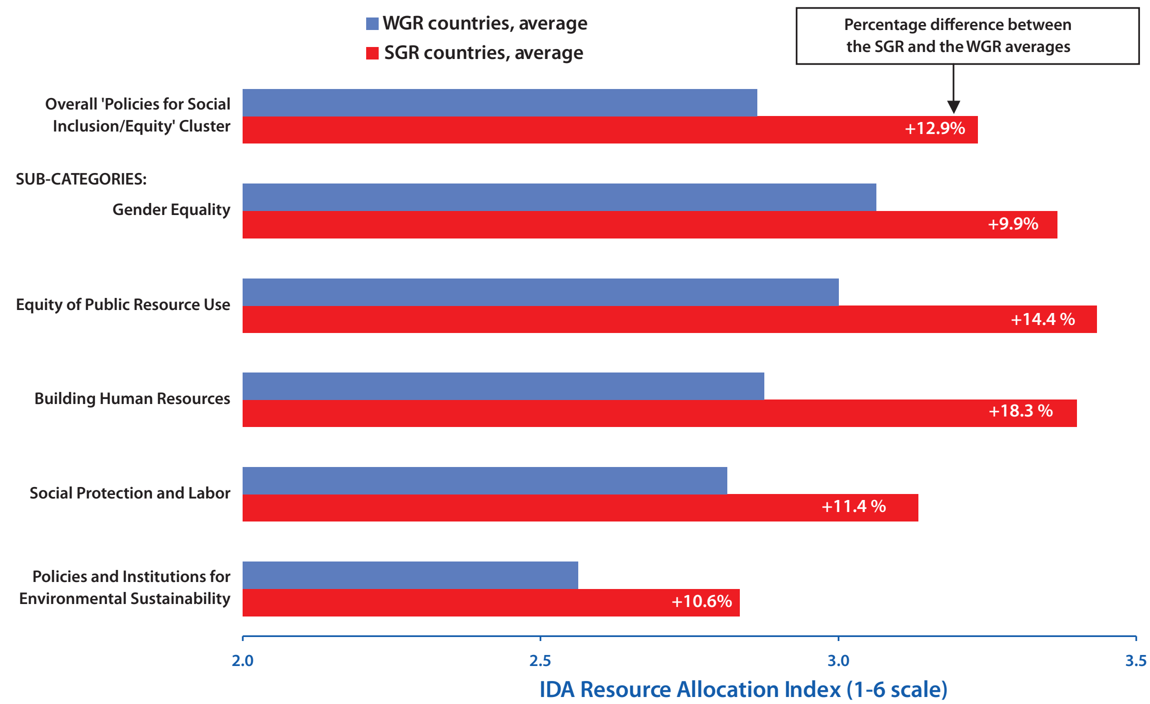
We also compare inclusiveness between our two groups using the World Bank's Country Policy and Institutional Assessment (CPIA) ratings[22] (Figure 4.8 and Table 4.3) for fifteen SGR and eight WGR countries for which they were available in 2007.[23] It appears that the SGR countries sampled tend to implement more inclusive policies than the WGR countries sampled, with a 13 percent higher average score for the 'Policies for social inclusion/equity' cluster.[24] Furthermore, the SGR countries outperformed the WGR countries in *all* five sub-categories of the cluster: SGR countries score 18.3 percent higher for "building human resources" (education and health services), 14.4 percent higher for "equity of public resource" or how public spending is distributed, 11.4 percent higher for social protection and labour policies (safety nets and labour market regulation), and 10 percent higher on gender equity.

Again, recognizing that the direction of causality—if any—is uncertain, and that there is some controversy about the CPIA ratings themselves,[25] an interesting inference can be drawn. In consideration of the stronger average growth performance by SGR countries in 2007 (around 7 percent versus 1 percent for the WGR countries), these observations suggest that, at the very least, stronger growth is not hampered by more inclusive, equitable policies.

Human development

Table 4.4 complements the growth dimension of recovery by showing, where available, the human development index (HDI)[26] for SGR and WGR countries.[27]

Figure 4.8 **Social inclusion and equity CPIA ratings: SGR versus WGR countries**



Source: World Bank, 2007e.

Table 4.3 **CPIA ratings: SGR and WGR countries**

	A. Economic Management				B. Structural Policies				C. Policies for Social Inclusion/Equity						D. Public Sector Management and Institutions						
	1	2	3		4	5	6		7	8	9	10	11		12	13	14	15	16		
Countries	Macro. Mgt.	Fiscal Policy	Debt Policy	**Ave.**	Trade	Financial Sector	Business Regulatory Environ.	**Ave.**	Gender Equality	Equity of Public Resource Use	Building Human Resour.	Social Protection & Labor	Pol. & Instit. for Environ. Sustain.	**Ave.**	Property Rights & Rule-based Govern.	Quality of Budget. & Finan. Mgt.	Effic.of Revenue Mobil.	Quality of Public Admin.	Transpar., Account. & Corrup.in Pub. Sec.	**Ave.**	**IRAI**
SGR countries																					
Afghanistan	3.5	3.0	3.0	**3.2**	2.5	2.0	2.5	**2.3**	2.0	2.5	3.0	2.0	2.0	**2.3**	1.5	3.0	2.5	2.0	2.0	**2.2**	**2.5**
Angola	3.0	3.0	3.0	**3.0**	4.0	2.5	2.0	**2.8**	3.0	2.5	2.5	2.5	3.0	**2.7**	2.0	2.5	2.5	2.5	2.5	**2.4**	**2.7**
Azerbaijan	4.5	4.5	5.0	**4.7**	4.0	3.0	3.5	**3.5**	4.0	4.0	3.5	4.0	3.0	**3.7**	3.0	4.0	3.5	3.0	2.5	**3.2**	**3.8**
Bosina and Herzegovina	4.5	3.5	4.0	**4.0**	3.5	4.0	4.0	**3.8**	4.5	3.0	3.5	3.5	3.5	**3.6**	3.0	3.5	4.0	3.0	3.0	**3.3**	**3.7**
Cambodia	4.5	3.0	3.5	**3.7**	3.5	2.5	3.5	**3.2**	4.0	3.0	3.5	3.0	3.0	**3.3**	2.5	3.0	3.0	2.5	2.5	**2.7**	**3.2**
Chad	3.0	2.5	2.5	**2.7**	3.0	3.0	2.5	**2.8**	2.5	3.0	2.5	2.5	2.5	**2.6**	2.0	2.0	2.5	2.5	2.0	**2.2**	**2.6**
Congo, Dem. Rep. of the	3.5	3.5	2.5	**3.2**	4.0	2.0	3.0	**3.0**	3.0	3.0	3.0	3.0	2.5	**2.9**	2.0	2.5	2.5	2.5	2.0	**2.3**	**2.8**
Ethiopia	3.0	4.0	3.5	**3.5**	3.0	3.0	3.5	**3.2**	3.0	4.5	4.0	3.5	3.5	**3.7**	3.0	4.0	4.0	3.0	2.5	**3.3**	**3.4**
Georgia	4.5	4.5	5.0	**4.7**	5.5	3.5	5.0	**4.7**	4.5	4.5	4.0	4.0	3.0	**4.0**	3.5	4.0	4.5	3.5	3.0	**3.7**	**4.3**
Mozambique	4.0	4.0	4.5	**4.2**	4.5	3.5	3.0	**3.7**	3.5	3.5	3.5	3.0	3.0	**3.3**	3.0	3.5	4.0	3.0	3.0	**3.3**	**3.6**
Rwanda	4.0	4.0	3.5	**3.8**	3.5	3.5	3.5	**3.5**	3.5	4.5	4.5	3.5	3.0	**3.8**	3.0	4.0	3.5	3.5	3.5	**3.5**	**3.7**
Sierra Leone	4.0	3.5	3.5	**3.7**	3.5	3.0	2.5	**3.0**	3.0	3.0	3.5	3.0	2.0	**2.9**	2.5	3.5	2.5	3.0	2.5	**2.8**	**3.1**
Solomon Islands	3.5	3.0	2.5	**3.0**	3.0	3.0	2.5	**2.8**	3.0	2.5	3.0	2.5	2.0	**2.6**	2.5	2.5	2.5	2.0	3.0	**2.5**	**2.7**
Tajikistan	4.0	4.0	3.0	**3.7**	4.0	3.0	3.5	**3.5**	3.5	3.5	3.0	3.5	2.5	**3.2**	2.5	3.0	3.0	2.5	2.0	**2.6**	**3.2**
Uganda	4.5	4.5	4.5	**4.5**	4.0	3.5	4.0	**3.8**	3.5	4.5	4.0	3.5	4.0	**3.9**	3.5	4.0	3.0	3.0	3.0	**3.3**	**3.9**
Average	3.9	3.6	3.6	**3.7**	3.7	3.0	3.2	**3.3**	3.4	3.4	3.4	3.1	2.8	**3.2**	2.6	3.3	3.2	2.8	2.6	**2.9**	**3.3**
WGR countries																					
Burundi	3.5	3.5	2.5	**3.2**	3.5	3.0	2.5	**3.0**	4.0	3.5	3.0	3.0	3.0	**3.3**	2.5	3.0	3.0	2.5	2.0	**2.6**	**3.0**
Congo, Rep. of	3.0	2.0	2.5	**2.5**	3.5	2.5	2.5	**2.8**	3.0	2.5	3.0	2.5	2.5	**2.7**	2.5	2.5	3.0	2.5	2.5	**2.6**	**2.7**
Cote d'Ivoire	3.0	2.5	1.5	**2.3**	3.5	3.0	3.0	**3.2**	2.5	1.5	2.5	2.5	2.5	**2.3**	2.0	2.0	4.0	2.0	2.0	**2.4**	**2.6**
Eritrea	2.0	2.0	2.5	**2.2**	1.5	2.0	2.0	**1.8**	3.5	3.0	3.5	3.0	2.0	**3.0**	2.5	2.5	3.5	3.0	2.0	**2.7**	**2.4**
Guinea-Bissau	2.0	2.5	1.5	**2.0**	4.0	3.0	2.5	**3.2**	2.5	3.0	2.5	2.5	2.5	**2.6**	2.5	2.5	3.0	2.5	2.5	**2.6**	**2.6**
Haiti	3.5	3.5	2.5	**3.2**	4.0	3.0	2.5	**3.2**	3.0	3.0	2.5	2.5	2.5	**2.7**	2.0	3.0	2.5	2.5	2.0	**2.4**	**2.9**
Nicaragua	4.0	4.0	4.5	**4.2**	4.5	3.5	3.5	**3.8**	3.5	4.0	3.5	3.5	3.5	**3.6**	3.0	4.0	4.0	3.0	3.0	**3.4**	**3.8**
Papua New Guinea	4.5	3.5	4.5	**4.2**	4.5	3.0	3.0	**3.5**	2.5	3.5	2.5	3.0	2.0	**2.7**	2.0	3.5	3.5	2.5	3.0	**2.9**	**3.3**
Average	3.2	2.9	2.8	**3.0**	3.6	2.9	2.7	**3.1**	3.1	3.0	2.9	2.8	2.6	**2.9**	2.4	2.9	3.3	2.6	2.4	**2.7**	**2.9**

Note: For calculation of the cluster averages, all criteria are equally weighted within a cluster; overall IRAI is calculated as the mean of the score of four clusters. Scale: 1=lowest, 6=highest.

Source: World Bank, 2007e.

Since GDP per capita is a component of HDI we would expect, other things being equal, that HDI would increase faster in the SGR group—and indeed it does. Among our set of 29 countries the HDI index deteriorates in only two countries—Papua New Guinea and Namibia—both in the WGR group. The fastest HDI increase took place in Rwanda, with Mozambique, Uganda and Ethiopia all logging respectable performances. Chad showed the weakest HDI recovery of the SGR group.[28]

Table 4.4 **Human development index: SGR and WGR countries**

	Rank 2005	HDI 1985	HDI 1990	HDI 1995	HDI 2000	HDI 2005
SGR countries						
Afghanistan	..	..	..	..	..	..
Angola	162	..	..	..	..	0.45
Azerbaijan	98	..	..	..	..	0.75
Bosnia	66					0.80
Cambodia	131	..	..	0.54	0.55	0.60
Chad	170	0.34	0.36	0.38	0.40	0.39
Congo, Dem. Rep. of the	168	0.43	0.42	0.39	0.38	0.41
Croatia	47		0.81	0.81	..	0.85
Ethiopia	169	0.31	0.33	0.35	0.38	0.41
Georgia	96	..	..	..	..	0.75
Lebanon	88	..	0.69	0.73	0.75	0.77
Liberia	..	..	..	..	..	
Mozambique	172	0.29	0.32	0.34	0.38	0.38
Rwanda	161	0.40	0.34	0.33	0.42	0.45
Sierra Leone	177	..	..	..	..	0.34
Solomon Islands	129	..	..	..	..	0.60
Uganda	154	0.42	0.43	0.43	0.48	0.51
Tajikistan	122	0.71	0.70	0.64	0.64	0.67
Average	**132**	**0.41**	**0.49**	**0.49**	**0.48**	**0.57**
WGR countries						
Burundi	167	0.35	0.37	0.35	0.37	0.41
Congo, Rep.of	139	0.57	0.56	0.55	0.52	0.55
Côte d'Ivoire	166	0.45	0.45	0.44	0.43	0.43
El Salvador	103	0.61	0.65	0.69	0.72	0.74
Eritrea	157	..	..	0.44	0.46	0.48
Guatemala	118	0.57	0.59	0.63	0.67	0.69
Guinea-Bissau	175	0.30	0.32	0.35	0.37	0.37
Haiti	146	0.46	0.47	0.49	..	0.53
Namibia	125	..	..	0.70	0.66	0.65
Nicaragua	110	0.60	0.61	0.64	0.67	0.71
Papua New Guinea	145	0.48	0.50	0.53	0.54	0.53
Average	**141**	**0.49**	**0.50**	**0.53**	**0.54**	**0.55**

Source: UNDP, 2007a.

4.5 Macroeconomic drivers of recovery

To understand better what policies have worked best to support recovery in post-conflict environments, this section reviews in greater depth the experiences of our group of countries.[29] In addition to countries that are in our list, the particular experience of Vietnam will be discussed when appropriate. The section discusses five sets of policies, which collectively constitute pillars of macroeconomic policy in post-conflict countries. These are trade- and investment-enabling policies, monetary policy, fiscal policy, the management of ODA flows, and debt relief.

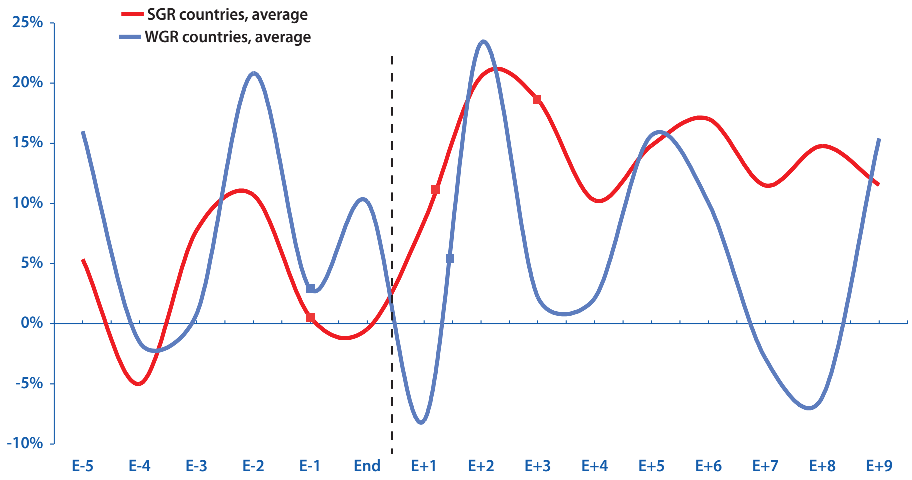
Investment- and trade-enabling policies

Promoting an environment that fosters investment and trade—particularly exports—is a key driver of recovery. In this section, we describe first the performance of our cohort of countries and then review the corresponding policy approaches that may account for the major differences observed.

Figure 4.9 compares the average export growth of SGR and WGR countries. It shows that starting at lower levels on average, post-conflict export growth increased sharply for the SGR group in the first two to three years (topping 20 percent as early as two years after the end of conflict). Export growth remains on average significantly higher and much less volatile for the SGR than for the WGR group in subsequent years.

Foreign direct investment (FDI) has also been crucial for recovery in a number of countries. Figure 4.10 shows that FDI tends to be higher in SGR countries, and particularily so in the first few years following the end of conflict. The trend mimics that of economic growth—with a sharp drop at the end of conflict and massive surge post-conflict—and the result is a large differential in FDI inflows between the two

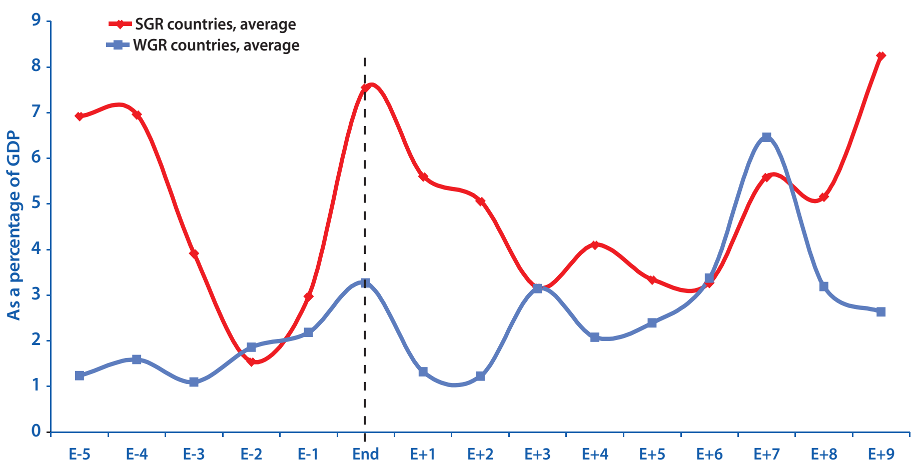
Figure 4.9 **Export growth: SGR versus WGR countries**



Note: Value of exports of goods and services (constant 2000 US$), calculated as percentage change. The SGR group does not include Afghanistan, Angola, Liberia, Sierra Leone and Solomon Islands; the WGR group does not include Burundi, the Republic of Congo, Haiti and Papua New Guinea.

Source: World Bank, 2007a.

Figure 4.10 **FDI: SGR versus WGR countries**



Note: The SGR group does not include Afghanistan; the WGR group does not include Namibia.

Source:World Bank, 2007a.

groups in the early (three to four) years after conflict when the economy is in great need of resources and peace dividends. Over the medium term, both groups seem to converge to similar levels, before beginning to diverge again.

The experiences and approaches of recovering countries to doing business have depended on their individual characteristics and circumstances. Some natural resource-rich countries, such as Mozambique, have been highly attractive to FDI.[30] The evidence shows that FDI favours resource-rich countries and sectors.[31] However, beyond mere resource endowment, there is also evidence that policies matter. Mozambique's relative political and macroeconomic stability, a relatively liberal trade regime, cheap labour and sound exchange rate management have played an important part in its performance. Cambodia, where oil was discovered only recently,[32] had a big surge in apparel exports in the five years after the war.[33] Similarly, Vietnam's impressive performance in the 1990s had little to do with minerals and metals.

In the immediate aftermath of conflict, companies are reluctant to invest because of continuing security, political and business risks. Protracted physical insecurity, widespread corruption, cumbersome or inefficient legal and regulatory systems, destroyed infrastructure and a poor stock of human capital all contribute to a poor investment climate. Low or uncertain financial returns deter the engagement of private enterprise. As noted above, the main exceptions are in natural resources and, as noted in Chapter 3, sectors such as telecommunications. For most countries, however, in the immediate aftermath of conflict the bulk of financial inflow typically comes from foreign aid; significant private investment comes in only several years after conflict has ended. Getting private enterprise to enter post-conflict economies significantly earlier remains a continuing challenge that requires additional creativity to raise the financial incentives for companies to invest in key sectors (Box 4.1).

Two lessons may be drawn from the review of business-enabling policies. First, most successful growth recovery countries have implemented reforms early on, yet with a gradualist and sequential approach. By most accounts, countries such as Mozambique and Uganda have implemented 'orthodox' reforms, focused on macroeconomic stability and structural reforms, with significant donor support. For political and historical reasons, Vietnam's and Cambodia's reforms have had a more 'unorthodox' flavour, especially in the former case with a tightly state-led recovery. And yet, far from implementing 'shock therapy', all these countries have adopted a sequential, step-by-step approach, with early, often easier, reforms facilitating and laying the ground for those that follow.

> Successful growth recovery countries have in general adopted a sequential, step-by-step approach, with early, easier, reforms facilitating and laying the ground for those that follow.

Policy makers in Mozambique initially enacted foundational reforms, which were relatively easy to implement and which provided the basis on which other reforms could be built.[34] These early reforms focused on overcoming fiscal crises, curbing hyperinflation[35] and achieving basic macroeconomic stability. Once the foundation was laid, more ambitious reforms in the banking system, investment regime and public finance became easier to implement. This sequencing of reforms not only strengthened the hand of reformers in the government but also allowed the building of the political will and institutional capacity that would be needed later to design and implement more difficult reforms. Vietnam also presents an interesting case study for a step-by-step economic reform process tailored to indigenous needs and realities. For instance, its trade liberalization followed a two-stage strategy, with a gradual reduction in tariffs and non-tariff barriers that gave local firms time to adjust and strengthen before being fully exposed to international competition. In Uganda, economic reforms broadly followed three phases: stabilization and recovery measures, structural adjustment and liberalization, and structural and institutional reforms. A large economic recovery programme focusing on stabilization and devaluation measures, coupled with essential investments in infrastructure rehabilitation, was followed by price and structural reforms, including the legalization of the parallel exchange market and the abolition of the state monopoly on coffee marketing. Finally, ambitious reforms were introduced in the 1990s to strengthen the public financial management system, restructure the banking sector, and improve revenue collection. As a result, and helped with significant donor support, Uganda was able to regain investors' confidence.[36]

In addition to their economic benefits, the gradualist approach used by these countries further allowed them to build the self-confidence and general goodwill that could then be deployed for introducing more complex reforms. To regain the confidence of the population and rebuild trust after years of uncertainty and violence requires the provision of jobs and basic social services for individuals and households. For communities and local government it means revenue sharing, institutional strengthening and relative fiscal autonomy; for business it means political stability, clearly articulated economic policies and a commitment to rebuilding investment-enabling institutions, especially financial networks and key public services. The lesson is that the 'gradualist' approach allows recovering economies to build on early dividends in a self-reinforcing manner. This means that the early years are critical in determining the recovery path.

BOX 4.1 ENABLING THE PRIVATE SECTOR IN POST-CONFLICT ECONOMIES

Considerations to foster private sector involvement in post-conflict settings include:

• **Initiate reforms as early as possible.** There is a relatively narrow window of opportunity to establish a new status quo that is conflict-sensitive, more inclusive and which promotes economic transformation. It is critical to embark on such reforms in the period immediately following the end of a conflict, before the possible entrenchment of opposing political interests.

• **Prioritize governance and security reforms.** Ensuring physical security, property rights protection and transparency in the justice system are central to improving the business climate and attracting private investment anywhere, but particularly so in the high-risk environments of post-conflict economies. Laying the basis for these immediately sends a powerful signal that may raise the confidence of domestic and foreign investors alike in the future of the economy.

• **Empower local entrepreneurs.** Supporting local business development is essential to economic recovery as the revitalization of domestic enterprise signals the return of 'normalcy', in addition to restoring local markets and providing employment. Key steps for engaging the local business community include improving its access to finance, through such mechanisms as microcredit and, even more importantly, encouraging its continuing participation in policy dialogue with the government and policy makers.

• **Promote foreign investment.** Perceptions of risk delay entry of private enterprises into post-conflict environments. For example, extractives industries may be quick to pursue exploration contracts in resource-rich countries, but may delay long-term investments in production until they are better assured of a country's stability. Incentives such as tax allowances and political risk insurance (PRI) may encourage foreign investors to enter the post-conflict market earlier. The World Bank's Multilateral Investment Guarantee Agency (MIGA) could be an important mechanism to help reduce the hazards of investing in unstable markets. A donor-funded investment guarantee facility that extends PRI access to domestic investors has been proposed in the report of the Commission for Africa. Extending political risk coverage to domestic and regional investors may encourage them to invest earlier than they were previously considering;

• **Promote public–private partnerships (PPPs).** PPPs allow the private sector to deliver services previously (or traditionally) provided by the public sector. In the post-conflict setting, the model could be used creatively, particularly in restoring essential infrastructure and rehabilitating schools and health facilities. In addition to the direct recovery dimension, PPPs could help grow domestic private enterprise if special efforts are made to link the main private leader to domestic suppliers and subcontractors.

• **Be realistic about investment opportunities.** Individual company calculations for investing vary according to their size, sector and corporate strategies. While participation of larger, transnational corporations companies may represent a strong vote of confidence for local stability, investment from these entities may not be realistic in the short term. Policy makers may want to focus on smaller, local or regional actors who have greater familiarity with local conditions and who may have a greater stake in local economic recovery. The reasons for such additional interest from regional enterprises may well include strong cultural linkages.

• **Develop strategies to enhance risk sharing.** Recovering economies need a robust risk-sharing facility to help bridge the gap between private and social returns that characterize post-conflict situations. While private returns to the investor may be low, the social returns are usually considerable. These include the signalling that peace has returned that may attract in additional investment, and the employment generated that may reduce conflict risk. This divergence between private and social returns suggests an important market failure correction role for a publicly funded financial facility. The scope of such a facility could include bearing the cost of doing project design and financial structuring in a fully consultative and conflict-sensitive manner. It could also bear some of the cost of borrowing as an incentive for early entry into high-priority sectors such as energy, construction or export industries.

Second, privatization and financial sector reforms were often part of the wider 'pro-business' reform package, with varying results. Many post-conflict countries have engaged in large-scale privatization programmes to sell state assets to private entrepreneurs. In Mozambique, Bosnia and Rwanda, for instance, external partners made privatization an important conditionality in the policy reform.[37] In Lebanon, a wide range of enterprises and public utilities were transferred to the private sector.[38] Given the shortage of public funds, privatization presents a practical way to raise resources. Privatization has also been promoted as an instrument to stimulate the private sector and initiate the crucial mobilization of domestic and foreign resources.

In practice, however, the record of post-conflict privatization has been mixed as a result of a variety of obstacles, even in strong performing countries like Mozambique, where privatization was at the forefront of economic reforms. Privatization was often undertaken without sufficient preparation and without having installed an adequate regulatory, financial and competitive framework. In some post-conflict economies with flourishing criminal networks, privatization has frequently been a 'garage sale' for the personal enrichment of corrupt business interests or, as in Sierra Leone, taken over by powerful elites, and thus failed to bring about an efficient market.[39] Similarly, according to one analyst, "six of the 14 state-owned banks operating in Bosnia and Herzegovina were 'informally' privatized during the war, including the transfer of assets to war criminals".[40] In other cases, as with Mozambique's largest bank, privatization was essentially a sale to foreign companies, raising concerns about national sovereignty.

Against this situation, some governments have opted to encourage private participation in infrastructure provision and public service delivery, rather than sell assets. In some situations, governments have encouraged competition between the public sector and the private sector. Ethiopia, for instance, introduced private banks side by side with state banks to induce greater competition in the banking sector. In Cambodia also, "hundreds of tiny private power networks established themselves throughout the countryside during and after the civil strife of the 1990s, effectively filling the void left by the non-functioning national utility".[41] In that situation, the government chose wisely to do nothing to impede new entrants into the business. In Vietnam, an effective and viable approach was found to be the restructuring of public enterprises and bringing them under market discipline.

> Government commitment to restoring credibility, confidence and competitiveness is paramount for improving the business and investment climate.

Policy implications

There are many ways to improve the business and investment climate, and some approaches are more 'orthodox' than others. In all cases, however, there was no doubt that the government meant business. This was demonstrated in efforts to restore credibility, confidence and competitiveness. Domestic resource endowments and conditions play a role, but commitment and policies seem to matter more. The sequencing and context-appropriateness of these reforms seem to go a long way, casting doubt on the benefits of 'shock therapy' in restoring an enabling environment. Gradualist approaches strengthen the feasibility of recovery, with early dividends paving the way for further reforms in a self-reinforcing manner. In resource-rich economies, FDI and exports could provide the basis for such dividends. In less-endowed environments the role of donors in kick-starting the recovery process is likely to be critical. In all cases, creativity is required of the state.

Re-establishing a credible and efficient monetary policy regime

Rebuilding the domestic financial and banking sector to protect depositor interests and help channel resources between savers and investors has been one of the greatest challenges of post-conflict recovery. Weak supervision and regulation of the sector is typically a by-product of under-resourced and understaffed central banks. This may result in regulatory forbearance under the pressure of powerful interests, including war criminals, leniency in the licensing of banks and general failure to curb emergent bank crises.[42] It is critical, therefore, to re-establish a functioning central bank—or its equivalent—as a first step towards strengthening the financial and banking sector.

Re-establishing the central bank is also pivotal for managing monetary policy and exchange rates in ways that that will help accelerate and sustain recovery. In environments where bartering may have been substituted for currency transactions, the government must enact policies to restore the credibility of the monetary system and its authority over it. In parallel, post-conflict governments need to meet their financial obligations, including paying employees, pensioners and suppliers. A credible monetary policy must thus balance the needs for price stability with the need for liquidity to lubricate the economy and jump-start development.

The indigenous drivers approach suggests that the starting point for rehabilitating the central bank should be to assess the existing institutional capacity and build upon it. In countries like Rwanda where the central bank shut down during the war, the first challenge was to reopen it. In Afghanistan, amidst difficult circumstances, a strong effort by the government successfully led to the central bank's introduction of a local currency that facilitated economic management and helped state-building (Box 4.2).

In Afghanistan, Bosnia and Herzegovina, and Croatia, the timely overhaul of monetary policy reduced the contribution of price instability to aggregate uncertainties, while in Tajikistan any beneficial effects of post-conflict currency replacement were eroded by the return of monetary indiscipline.[43]

Two types of monetary regimes have typically been used in post-conflict settings, because of their strong commitment to price stability and low technical requirements from the central bank. The first, the use of a foreign currency (usually dollarization), does not carry the requirements of a central bank and is immune to government interference. Dollarization, however, has drawbacks because it limits the country's ability to cope with external

BOX 4.2 MONETARY RECONSTRUCTION IN AFGHANISTAN

After the 2001 war, there was a pressing need in Afghanistan to rebuild the economy and strengthen key institutions. Years of civil war had left Afghanistan with a shattered economy, a weak central bank, no local currency and an ineffective payments system. The economy was heavily dollarized, and there was a proliferation of foreign currencies as well as counterfeit ones. Under these circumstances, the government decided to introduce its own currency so it would be easier to meet its financial obligations, enhance state power and improve economic efficiency. Moreover, with a new currency, confusion could be eliminated. During a nine-month period, the government hired a reputable German printer to print the new notes and developed and implemented complex logistical plans for the safekeeping and distribution of 500 tons of new notes throughout the country. Through buying and selling dollars, the central bank created liquidity during the transition period. The moneychangers, the *hawala*, were brought into the exchange process and were very important for its success. As a result, in less than a year the government had a reliable currency for budgetary operations and an important symbol for state-building success.

Source: Coats, 2007, p. 237–238.

adverse shocks. Dollarization may protect the country from financial instability, but it deprives national authorities of control over monetary policy. It can also have a negative wealth effect, because the wealth of poor people who hold local currency declines as the currency depreciates with respect to the dollar.[44] A country choosing to use a foreign currency is essentially giving up the revenue it can collect from seigniorage. Full dollarization in Liberia would have increased the economy's vulnerability to external shocks in addition to removing the government's revenue from seigniorage.[45] Monetary management becomes more difficult since the central bank has very few levers to influence the supply of money. Due to these weaknesses of dollarization, most of the recent post-conflict economies have favoured keeping their own currency.

A second option is a currency board arrangement under which a country pegs its exchange rate to a foreign currency and backs its money supply with foreign exchange. Such an arrangement allows the central bank to capture the seigniorage and retain the political benefits of a national symbol.[46] One place where a currency board has been successful in reducing inflation and preventing the central bank from printing money has been Bosnia and Herzegovina. In this case, the fact that discretion over monetary policy was not assigned at the Dayton Peace Accords facilitated acceptance of the Accords by the Bosnian, Croatian and Serbian representatives.[47] Reserves in the Bosnian Central Bank more than doubled between 1995 and 2000, the first five years of recovery, and inflation fell significantly.[48]

In economies experiencing hyperinflation (inflation rates of 50 percent or more on a monthly basis), partially fuelled by the monetization of fiscal deficits, tight fiscal and monetary instruments may be the only available remedy. In the Democratic Republic of the Congo, breaking a vicious cycle of hyperinflation and falling currency required a decisive stabilization policy involving a major tightening of the fiscal stance.[49] In some countries, soft pegs may help anchor the currency and give greater operational flexibility to the central bank, but there will be considerable pressure on the central bank to manage the exchange rate regime effectively and withstand political pressures to lend to finance government deficits. A successful monetary and exchange rate regime in a post-conflict country will require a central bank that is substantially autonomous and immune to political pressures to fully fulfil its role.

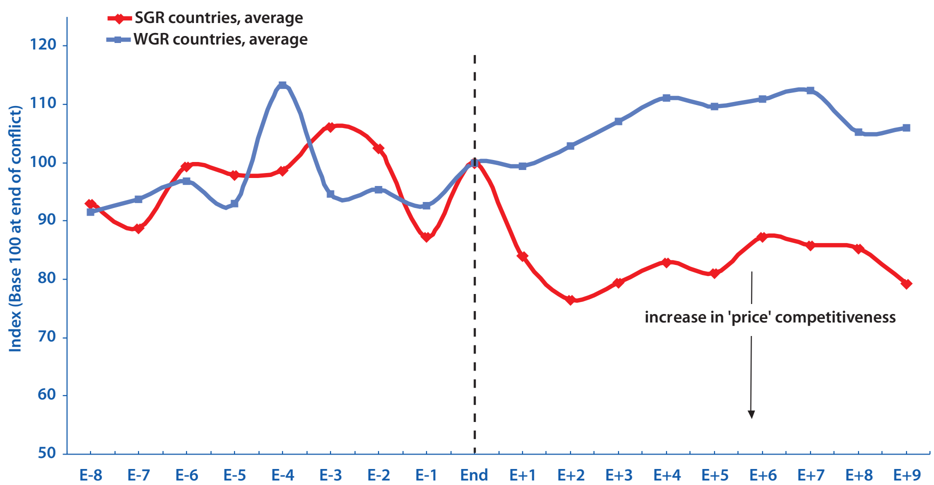
Good exchange rate management has also proved to be essential in post-conflict countries for maintaining trade competitiveness. An appreciation of the currency is a real concern in a poor rural economy where agricultural exports are important (such as coffee exports in Ethiopia, Rwanda and Uganda), and where a fall in the domestic value of these exports can have serious consequences for rural poverty and employment. In addition, a short-term signal to firms that traded goods are less profitable may discourage or delay critical investments in export and import-competing industries. There is some empirical evidence of the economic benefits of preventing an inflation-adjusted exchange rate appreciation in order to maintain competitiveness.[50]

Figure 4.11 shows that the SGR group (with stronger export growth performance than the WGR group) benefited from an increase in their trade competitiveness. The loss of competitiveness could also be a particular concern for post-conflict countries that receive large aid inflows, which could potentially lead to currency appreciation as discussed later in this chapter.

Policy implications

This review of post-conflict monetary policy experiences suggests that "prompt, well-executed and publicized monetary policy overhaul is beneficial for reducing uncertainty, facilitating assistance and

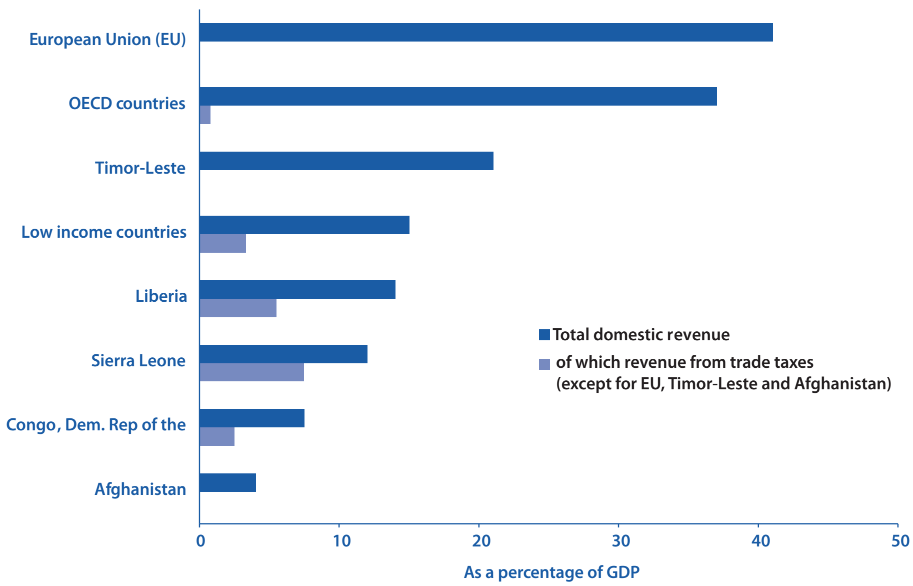
Figure 4.11 **Trade competitiveness index: SGR versus WGR countries**[52]



Note: This is the trade weight real exchange rate computed as domestic consumer prices divided by a trade weighted index of whole prices of trading partners (a fall is a depreciation of the real exchange rate).

Sources: Berg, 2006; IMF, 2004b; IMF, 2007e; IMF, 2007f; IMF, 2008a; World Bank, 2007a; World Bank, 2001.

Figure 4.12 **Government revenue in selected countries and groups of countries**



Source: Carnahan, 2007, Figures 1 and 2, p. 2.

establishing that the orientation of the post-conflict government is towards the social good".[51] It also shows that there are several different ways to reach similar goals and that the choice of an appropriate monetary regime depends on the economic fundamentals and institutions of the economy.

Fiscal policy

The main challenge for post-conflict fiscal policy is to find the right balance between competing exigencies, at a time when needs are great and capacities are very weak. Given the high risk of conflict recurrence, fiscal policy must support the consolidation of political stability, while not jeopardizing macroeconomic stability.

The high inflation and indebtedness that are typical of post-conflict countries reduce the scope for further deficit financing. Post-conflict countries also usually display very low government revenue/GDP ratios,[53] as a result of weakened capacities for tax collection and the widespread war-induced informality that reduces the tax base (Figure 4.12). Furthermore, like most developing countries, they have greater reliance on indirect taxes—especially trade taxes—than on direct taxes. While the revenue/GDP ratio tends to follow an upward trend after conflict, domestic revenues remain largely insufficient to meet recovery needs.

The first consideration in restoring the fiscal capacity of the post-conflict state is the re-establishment a proper and functioning tax administration. This is discussed in Chapter 5. The second consideration is reform of the tax system. Corresponding to the overall approach of this report, reform should be guided by *pragmatism, gradualism and conflict sensitivity*. Pragmatism suggests that such reforms should start from whatever system and taxes are in place. This might, for instance, entail reducing the number of tariff rates and classifications, as in Afghanistan, where "25 tariff rates that ranged from 7 to 150 percent were replaced with a simplified six-rate structure".[54] Pragmatism is also manifest in the case of the IMF-supported introduction of a levy on coffee export in Timor-Leste, although in some other cases orthodoxy has prevailed—in Guatemala for instance, though revenue enhancement was included in the peace accords, priority was given to cutting tariffs.[55]

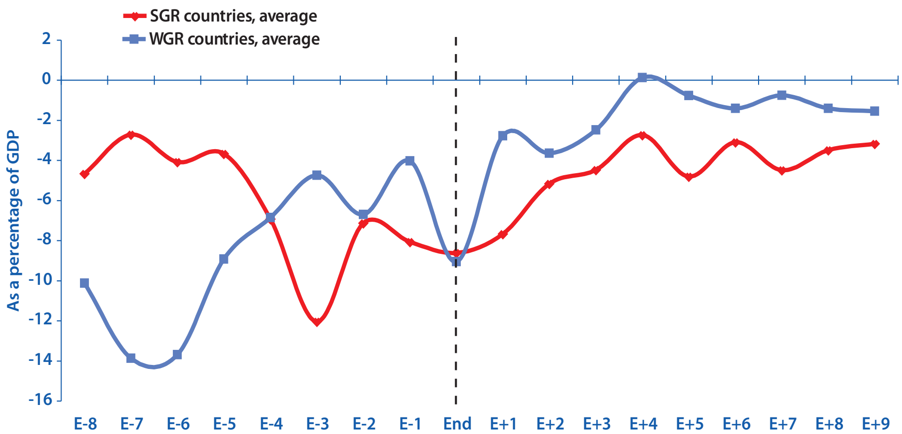
Gradualism implies the momentary toleration of 'second-best' policies that permit revenues to be mobilized quickly while the economy expands and capacities are rebuilt. Practices such as withholding taxes on wages (as in Afghanistan, Bosnia and Herzegovina and Timor-Leste) and a presumptive tax on small business (in Timor-Leste) can help lay the foundation for a more efficient personal and corporate tax system in the future. In Timor-Leste, the export tax on coffee was subsequently replaced by a general income tax as the recovery progressed. In Mozambique, the Government, with support from the IMF and DFID, contracted a private firm (Crown Agents) for a 'build, operate, and transfer' system that resulted in increases in revenue mobilization from customs.[56]

Finally, and perhaps most importantly, reforms to the tax system must be conflict-sensitive. Their impact on vertical and horizontal inequalities must be explicitly considered. Even as we consider the usual questions of revenue-generating potential, administrative feasibility and efficiency, we must also recognize the imperative of keeping the risk of conflict recurrence low.

The third aspect of restoring fiscal capacity has to do with the size of the tax base. This depends primarily on the size and dynamism of the taxable formal economic sector. In the aftermath of conflict, it is critical to re-establish the control of the state over the territory and the corresponding economic activity. It is particularly important to rebuild and expand activity in the formal sector. This requires not only the use of taxes as incentives, but also the use of government expenditure allocation to the same end.

The level and pattern of public expenditures affect the prospects of recovery in many ways. Meeting basic needs offers a tangible peace dividend for war-torn societies, and is central to state legitimacy and the social contract between the state and society.[57] Public expenditure can be the initial main engine of growth and development and is the main source of the peace dividend, which is essential to peace consolidation. But if public expenditure increases too rapidly to meet such urgent priorities as employment creation, large fiscal deficits and inflation may follow. There is some evidence that in post-conflict settings, each incremental episode of inflation leads to additional capital flight (or currency substitution) undermining domestic seigniorage revenues and potentially destabilizing domestic financial markets.[58] Fortunately moderately high inflation may not hamper growth, as discussed above.[59] Still, a middle ground needs to be found between the imperatives of macroeconomic stability and the imperatives of maintaining peace. For post-conflict countries, the short run is particularly important. The macroeconomic goal of price stability and the peace-building goal of political stability must be pursued together. The former requires efforts to minimize budget deficit while the latter may require special expenditures to implement peace-accord commitments or to meet urgent social needs. In such settings, macroeconomic orthodoxy is impractical.[60] In Guinea-Bissau, wage arrears have contributed to profound unrest and undermined administrative effectiveness. In the Central African Republic,[61] "the

Figure 4.13 **Public sector deficit without aid financing: SGR versus WGR countries**



Note: The SGR group does not include Croatia, Lebanon, Liberia and Solomon Islands, the WGR group does not include Haiti.

Sources: Beresford et al., 2004; Berg, 2006; IMF, 2004b; IMF, 2007e; IMF, 2007f; IMF, 2008a; World Bank, 2007a; World Bank, 2001.

accumulation of large arrears and the irregular payments of wages to civil servants and military personnel have led to prolonged labor strikes and army mutinies".[62] On the other hand, in some cases, high inflation can also create unrest.[63]

Figure 4.13 shows that SGR countries ran larger public sector deficits than WGR countries. This suggests that there may be some room to run relatively high post-conflict public sector deficits.

Public expenditures can be 'recovery enabling' if they are able to effectively address horizontal inequalities, promote inclusive growth and generate employment. Some countries have been rather successful at this. Cambodia combined additional Multi-Fiber Arrangement (MFA) quotas for garment exports with an ILO-run factory certification programme to create a very rapid increase in manufacturing employment, particularly for young women (Box 4.3). El Salvador managed to transform its rural, employment-generating social investment funds into a system of cash transfers targeting women in the poorest villages.[64]

The evidence from several post-conflict experiences suggests, however, that this is seldom achieved. For instance, a study of the distributive incidence of post-war public expenditure in Guatemala found a persistence of both vertical inequalities and horizontal inequalities between Guatemala's indigenous and non-indigenous populations.[65] Further, in comparison to other countries at similar levels of income, the budget allocations for health expenditure, as well as for secondary and tertiary education, were regressive.

And yet, given the importance of horizontal impact of expenditure inequalities as risk factors of conflict, policy makers must ensure that public expenditures contribute to enhancing the well-being of the less-privileged regions and groups so as to alleviate grievances. At the very least, it must not be regressive. As with revenue mobilization, this requires a sound analysis of the distributive impact of expenditures.[66]

Policy implications

Two main policy implications may be drawn from the discussion of fiscal policy. First, the distributive impact of fiscal policy and its effect on conflict dynamics must be central considerations in deciding on revenue and expenditure policies. Such a concern might call for decisions regarding deficit targets, tax reforms or expenditure programmes that differ from those that would have prevailed in non-conflict settings. Second, timing and sequencing are particularly important. A key priority in the immediate aftermath of conflict is to create economic and employment opportunities and to start rebuilding the capacity of fiscal institutions as quickly as possible. One of the most critical needs after war is restoring the social contract between the state and the citizens, even if dealing with a transitional authority. In such circumstances, the first order of business should be for the state to regenerate goodwill via the provision of public goods and the delivery of social services. Such an approach will also provide significant assurance to the populace that their tax payments (when they are imposed later) will be put to good use. Too much focus too quickly on taxing the population might be counter-productive, especially because the tax base has been so severely eroded by conflict. Rebuilding the institutions for revenue mobilization will lay the groundwork for subsequent increases in tax revenues as the economy recovers.[67]

BOX 4.3 THE ILO'S BETTER FACTORIES CAMBODIA PROGRAMME

Ensuring that some labour standards are observed is an important consideration both for the health and safety of local workers and for the reputation of companies operating in fragile post-conflict environments. International interventions may be directed to help put in place an adequate regulatory framework. In 2001 the United States and Cambodia entered a three-year trade agreement increasing Multi Fiber Arrangement (MFA) quota access to the US clothing market. The government of Cambodia asked the ILO to develop a factory working conditions certification programme to make sure labour laws were enforced in its garment factories. In response, the ILO initiated the 'Better Factories Cambodia' certification programme.

The garment sector is critical to Cambodia's economy and employs a substantial portion of the workforce, the majority of which are young women: at the start of the programme, an estimated 90 percent of the workers in the industry were young women, mainly from rural areas, and 85 percent of them were under 26. The ILO hired and trained its own factory inspectors to monitor and report on working conditions and to help companies bring their factories in line with Cambodian labour law and ILO standards.

The programme has since been cited by large corporate buyers as an inducement to use Cambodian factories. As a result, exports expanded rapidly and nearly a million jobs have been created by these factories. Employment of women in the industry grew at nearly 20 percent annually between 1993 and 2001 (albeit from a very low base) as the industry grew from 5 percent to almost 12 percent of total employment during this period. By some estimates one in eight Cambodian families have at least one member at work in a garment factory.

By raising its labour standards Cambodia was able to increase its market access. This sort of donor-supported certification and inspection programme is especially useful in war-torn countries with weak technical capacities for oversight and enforcement.

Sources: ILO, 2005; ILO, 2006; Becker, 2005; Polaski, 2006.

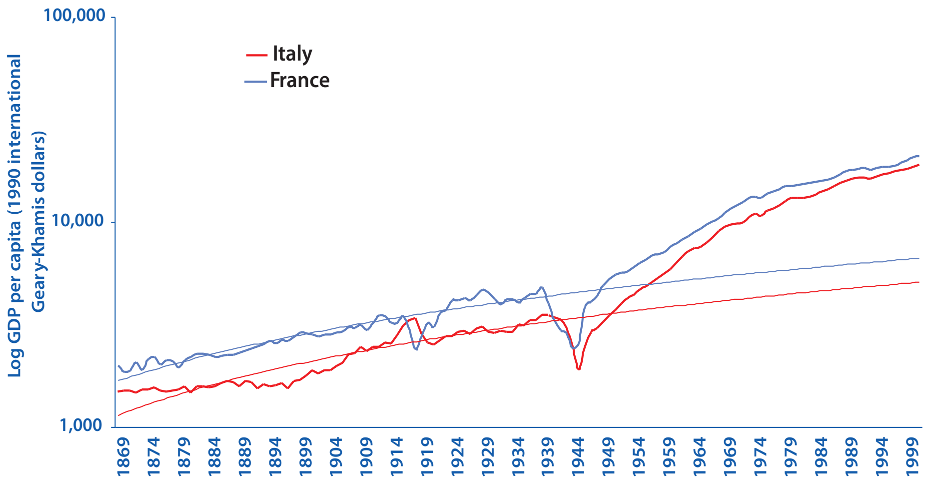
Official development assistance

Beyond the private sector and governments, ODA constitutes a pillar of recovery for most post-conflict countries today. To gain some insight as to whether and how ODA can support economic recovery, we start by drawing some lessons from the experience of the first modern post-conflict reconstruction package, and arguably the first ever large-scale external assistance programme—the European Recovery Programme after World War II, known also as the Marshall Plan.

Most importantly, the Marshall Plan did not help 'restore' the pre-war economy of Europe; rather it helped Europe break with the past and move on to a new, higher growth trajectory (see Figure 4.14 for France and Italy) supported by stronger and wider social safety nets. It also helped alleviate the bitter nationalist and ethnic rivalries that had driven centuries of devastating wars in Europe.

There are clearly important differences between contemporary countries in post-conflict recovery and Italy, France and Germany in the aftermath of World War II. The latter ranked among the most developed nations in the world in 1939, and had solid institutions and high stocks of human and physical cap-

Figure 4.14 **France and Italy's GDP per capita 1869-1995**



Source: Maddison, 2003.

ital. Most of the former are poor rural economies dominated by agriculture and resource industries, perhaps with the exception of Bosnia and Herzegovina, Croatia and Lebanon. However, when the Marshall Plan was launched in mid-1947, Europe's devastated economies were suffering high inflation, rationing, social unrest, and even a short but violent civil war in Italy. Two years later, inflation had fallen back into single digits, budget and trade deficits had narrowed and investment and productivity growth began a remarkable 30-year run.[68]

What lessons can be drawn from the design and implementation of the Marshall Plan? First, the effort and resources that went into the Plan were considerable. Financial input ranged between US$20 and US$30 billion a year at today's prices over four years.[69] This is equivalent to 30 percent of the total ODA provided by all major donors in 2007.[70] Its ambition went beyond restoring a pre-war order; it aimed for a qualitatively different socioeconomic order.[71] The volume of aid provided much-needed fiscal space for Europe, allowing the countries to finance the reconstruction of key physical infrastructure, to extend social safety nets, to ease shortages of basic necessities and to relax price controls and rationing. This helped governments regain some popularity and boosted confidence that recovery was on track.[72]

Second, its predictability made medium- and long-term planning feasible, and enabled consultation among different political factions within beneficiary countries. This helped buy time and policy space to build political consensus, including on the role of private and public enterprise.[74] France and Italy's governments were in 'delayed stabilization' mode: divided political factions blocked fiscal and price reforms fearing their constituents would be hurt. By reducing the share of the budget deficit financed locally, easing the distributive conflicts that drive up wages and prices and thus relaxing the urgency of sharp adjustment, and by compensating potential losers, Marshall Plan funds helped break the deadlock.[75]

Third, limited conditionality enabled context-appropriate decisions to be made with respect to the absorption and spending of aid. Critically, for instance, as discussed in Box 4.4, both France and particularly Italy 'saved' some of the funds they received to build up reserves, lower debt and help stabilize their exchange and inflation rates. Not absorbing aid reduced pressure on the exchange rate to appreciate. By 1950 Italy's trade plus services deficit shrank to just US$47 million, though 1950 aid flows were US$239 million. In part because inflation fell, financial stability improved and key export industries flourished—Italian textiles for example—and the political coalition assembled to secure Marshall Plan funding proved durable.[76]

BOX 4.4 HOW FRANCE AND ITALY USED THE MARSHALL PLAN

Like many post-conflict aid programs until recent years, aid initially provided by the Marshall Plan was tied to imported goods and services, and was conditional upon U.S. approval of budgets and spending programmes. For every dollar contributed by the Marshall Plan, recipient governments were required to deposit matching amounts in local currencies into a 'counterpart fund' controlled by U.S. administrators. These administrators maintained final authority over aid distribution and usage, and occasionally used this authority to influence the course of economic policies in recipient countries, for example to advance financial stabilization policies or to deter nationalization programmes.

At the same time, however, recipient governments were still able to exercise some policy control to establish domestic spending priorities for Marshall Plan funds. Decisions about the use of aid varied from country to country. Some countries preferred to see aid funds added to total imports or 'absorbed'.[73] Others chose to use aid to pay down foreign debt or accumulate dollar reserves. France did spend most of its aid on additional imports, using Marshall Plan funding to finance its current account deficit and to help reconstruct and modernize its industries in such sectors as coal, transport and steel. Italy, by contrast, did not, using aid instead to accumulate reserves and pay down debt. Indeed, Italy absorbed only about half of its aid inflows on average and just 20 percent in 1950. Italy's motive was in part to avoid the currency appreciation that would have created demand for imports but discouraged exports, particularly the country's clothing exports. Accumulating reserves and paying down foreign debt was also a way for Italy to rebuild confidence in the Lire.

Another example of the varying ways in which France and Italy utilized Marshall Plan funding for recovery relates to the use of aid to finance fiscal deficits. Counterpart funds used to finance fiscal deficits often lead to greater government spending on infrastructure, social programs, etc., in line with donor preferences to see aid spent on additional goods and services. However, governments may be unwilling to increase fiscal spending. Again, France did 'spend' most of its aid inflows while Italy only used roughly a third (36 percent) of its counterpart funds to finance fiscal spending.

Both countries engineered successful post-war recoveries while using aid in a fashion that suited domestic priorities but that sometimes deviated substantially from donor conditions and expectations.

Source: Casella and Eichengreen, 1994.

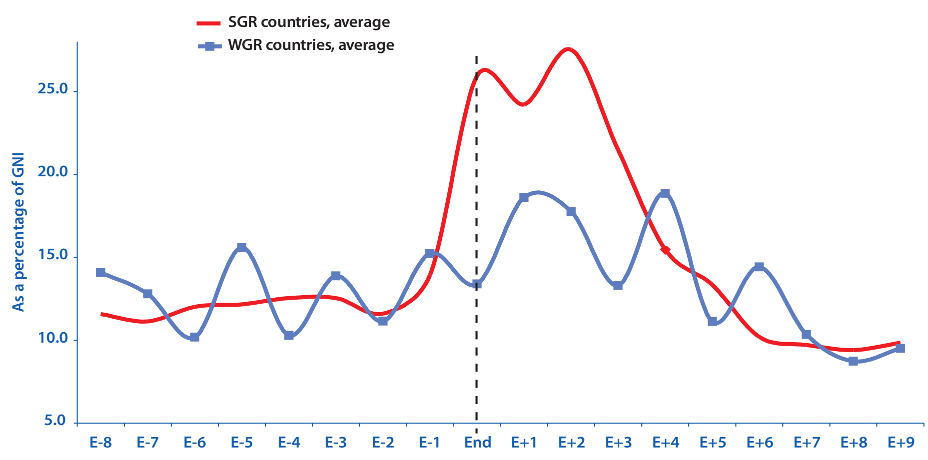
Overall, the Marshall Plan served as a catalyst for Europe's recovery by combining generous aid with conditions on economic policy in a particularly creative way, laying the groundwork for sustained growth. Repairing structures damaged by war is clearly necessary for recovery, but rehabilitating and reshaping institutions is crucial for long-term economic development. By helping governments stabilize their finances and build new political coalitions, the Marshall Plan helped redraw the basic social contract among key economic players in Europe and laid the foundations for the process of economic integration that began in earnest during the 1950s.

Recent external assistance efforts to conflict-affected countries

The flow of ODA to post-conflict countries since the late 1990s has generally been large and has increased steadily. Further, an increasing share of this aid has been on concessional terms, with a high grant element and a marked shift from project to programme aid, reflecting both the concern over excessive debt levels and an increasing emphasis on greater ownership.

A distinctive characteristic of post-Cold War conflict has been a change in the aid pattern.[77] During the Cold War, foreign aid tended to be higher during conflict as donors picked one side or another to support. For instance, among the countries in our sample, El Salvador shows this pattern of aid—

Figure 4.15 **ODA flows: SGR versus WGR countries**



Source: World Bank, 2007a.

high during conflict, but low after conflict ended. However, since 1989 there has been a tendency for aid inflows to shrink during conflict, to increase sharply in the first few years after conflict, and to taper off later on.

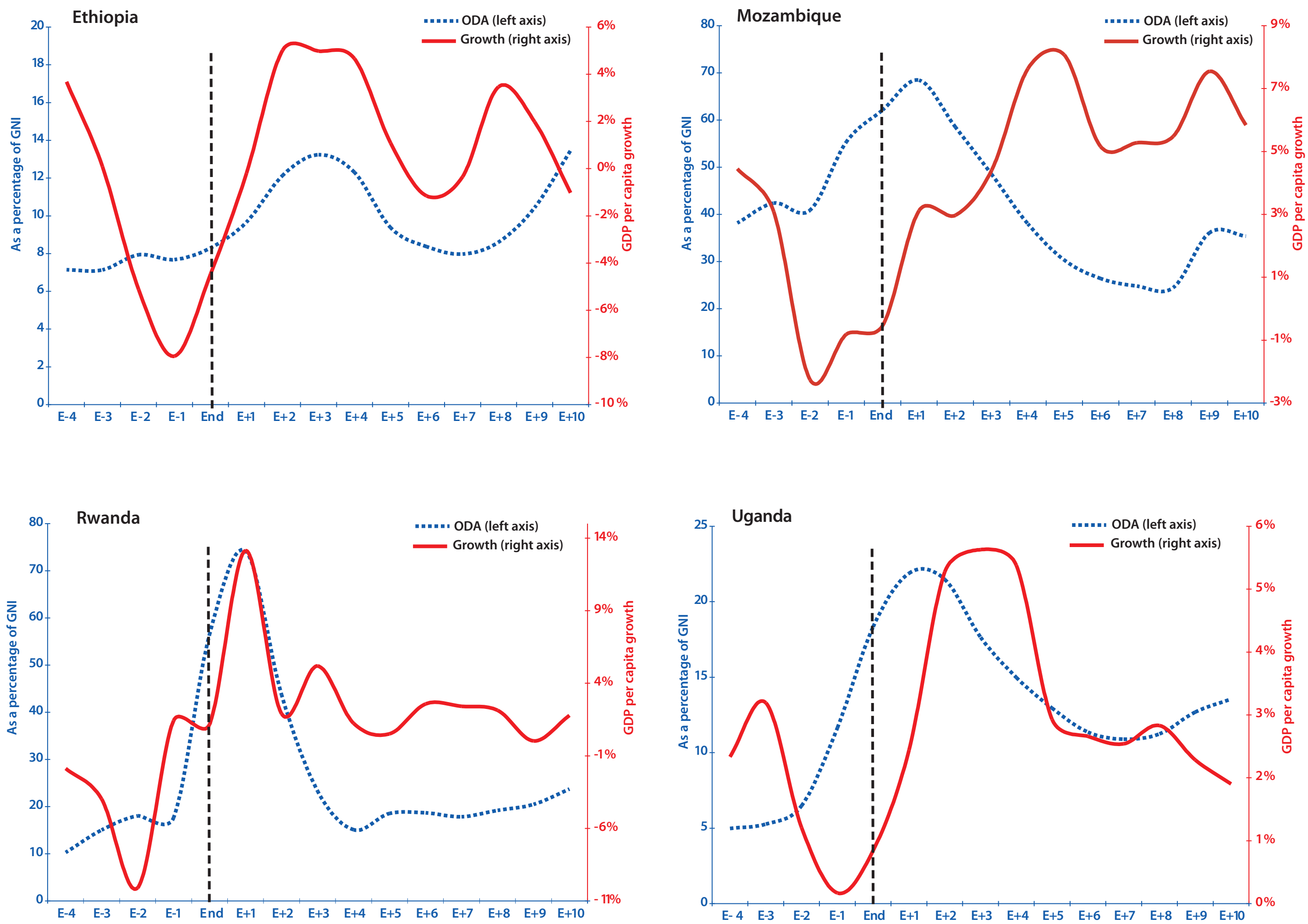
There is, however, significant heterogeneity across countries, with important economic and policy implications (Figure 4.15). ODA to post-conflict countries has tended to favour SGR countries, such as Afghanistan, Bosnia and Herzegovina, Mozambique and Uganda, as opposed to WGR countries like the Republic of Congo, Guinea-Bissau or Burundi.

By and large, aid as a share of gross national income (GNI) is very similar for the two groups before and during war, and then again between five years and later after war ends, with a ratio in the range of 10–15 percent (and more stable levels for WGR countries). The main divergence occurs during the five years immediately after the end of war, with SGR countries enjoying a much more pronounced increase in aid as a share of their GNI at a time when they also enjoy on average, higher growth rates than WGR countries. The overall difference is large: six percentage points per year on average for five years. For African countries in particular, this difference in the level of aid raises important questions, given that, as previously noted, roughly the same proportion of countries (half of them) in each of our groups are African (6 of 11 in the WGR group and 9 of 18 in the SGR group).

The pattern revealed by Figure 4.15 does not necessarily imply that aid causes rapid economic recovery, as causality could in fact run the other way: successful and peaceful recoveries (following severe wars) attract more donor attention. Aid may also, by design, follow more successful peace accords or UN intervention, which would then be the determining factor. However, the data suggest that a big spike in aid immediately after conflict ends *may* contribute to strong growth performance, and at least does not impede it. Many countries that have out-performed their pre-conflict growth rates have done so in an aid-abundant environment. Of course, not all countries that receive substantial aid grow rapidly. Some, like Namibia, have not. Further, there are examples of countries that have had post-war GDP growth rates around or above 2 percent on a sustained basis without substantial ODA (Vietnam for instance, and, more recently, El Salvador to a lesser extent).

On average in our sample, aid surges after conflict, but then falls to about 10 percent of GNI seven to nine years after conflict (Figure 4.15). For some countries, aid inflows continue to average 15–20 percent of GNI for sustained periods (this high aid group includes Ethiopia, Mozambique, Namibia, the Democratic Republic of the Congo, Nicaragua, Rwanda and Uganda). A sub-group that includes Rwanda, Mozambique and Ethiopia dominates the sharp surge in growth of strong recovery countries.

Figure 4.16 **GDP per capita growth and ODA as a share of GNI in selected countries**



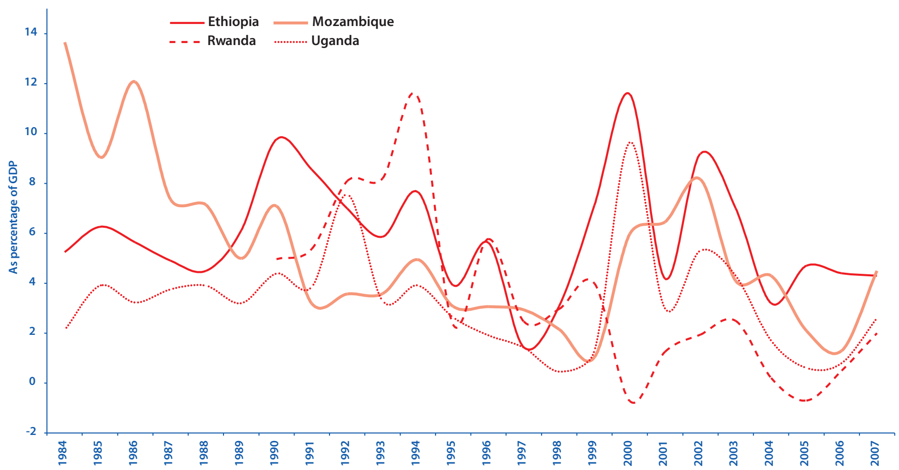
Source: World Bank, 2007a.

Uganda's economy grew more slowly, but the aid inflows lagged as well. Mozambique and Rwanda received the largest foreign aid spikes near the end of conflict: the upswing in aid started earlier in Mozambique, averaging over 40 percent of GNI by 1990, two years before the war ended. Aid to Mozambique surged again during the 2002 floods 10 years after the end of conflict. For Ethiopia and Uganda, aid inflows rose after conflict ended (Figure 4.16).

Significantly, it appears that the pattern of growth recovery broadly mimics the flow of aid, with growth recovering first in the countries that received the biggest doses of aid (Mozambique and Rwanda). Growth in Ethiopia and Rwanda started later and was uneven, but a late second surge of aid helped to boost Ethiopia's growth rates after 2000. At the country level and for the group as a whole, greater aid inflows are broadly correlated with faster growth.[78]

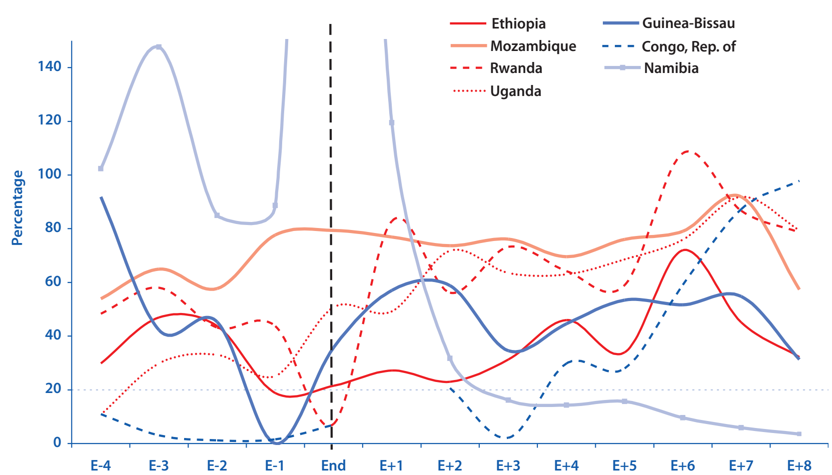
What are the variables at play? First, grant aid helps to cover the budget deficit, sometimes to a very large extent. In some cases, countries have used aid to pull themselves out of slumps (Figures 4.17

Figure 4.17 **Fiscal deficits (including grants) in selected countries**



Source: World Bank, 2003b; World Bank, 2005g; IMF, 2007g.

Figure 4.18 **Share of fiscal deficit financed by grants in selected countries**



Source: World Bank, 2003b; World Bank, 2005g.

and 4.18) by using it to plug part of the gap between domestic revenues and expenditures. In that sense, the share of ODA that is spent complements domestic revenues, providing additional resources towards implementing priority expenditures. Figure 4.18 indicates that grants have typically helped to plug a large proportion—well above 50 percent on average since the mid-nineties—of post-conflict fiscal deficits in Ethiopia, Mozambique, Rwanda and Uganda.[79]

Aid provided in the form of direct budget support (i.e. aid transferred to national treasuries, and managed via government budgetary procedures) is by nature fungible, so that it is difficult to assign specifically by type of expenditure. But that fungibility means that it can cover investments as well as recurrent costs—such as civil servant salaries. Ceilings on the government wage bill have become a lightning rod for concerns that health and education services are not being rehabilitated fast enough. Among our core strong recovery group the wage bill was lower before conflict, then rose in the late 1990s. In WGR countries the wage bill fell from pre-conflict levels, and was much more variable. To the extent that a higher wage bill represents higher public sector employment, this has not been a drag on growth. More aid, particularly more predictable aid, in the first years after the end of wars also allows countries to engage reforms more gradually and to plan ahead.

Some countries have saved a portion of their aid to build up reserves or pay down debt, much like France and Italy did. Doing so has helped keep inflation down and has created additional stimulus to the local economy. While saving some of the aid may help reduce inflationary pressures, the case for spending a large share of ODA seems quite robust in light of the magnitude of needs on the ground. Further, as indicated above, high inflation is not incompatible with high growth and the SGR countries ran larger public sector deficits for at least a few years after war.[80]

Aid may also have had an impact on economic performance through more indirect channels. Using aid to build social consensus enables and fosters local policy initiatives, beyond merely repairing the damage wrought by war. Inclusive growth policies may have been made easier by aid. As shown below, SGR countries do receive on average more aid immediately after conflict ends and their policies have tended to be more inclusive. Such a deduction would be compatible with the interpretation of the success of the Marshall Plan provided above. The 'political' benefits of more and earlier aid may well be as important as its direct economic benefits.

> Using aid to build social consensus enables and fosters local policy initiatives, beyond merely repairing the damage wrought by war. Inclusive growth policies may also be facilitated by aid.

Another important consideration for the use of aid is the relationship between aid inflows and currency appreciation through the phenomenon known as the Dutch disease.[81] However, the relationship is far from obvious. A study found that in 30 out of the 36 post-conflict countries considered, post-conflict aid inflows were not associated with real exchange rate (RER) appreciation, and sometimes the RER depreciated instead.[82] The study examines seven cases in more detail, finding that even large surges in aid into Ethiopia, Uganda and Rwanda had almost no effect on the competitiveness: in fact the inflation adjusting exchange rate depreciated somewhat. The conclusions are clear:

> The assessment of macroeconomic outcomes of aid in the seven country experiences suggests that post-conflict countries see aid as an important source for both financing post-conflict spending needs and strengthening public-sector financial positions by saving part of aid inflows. The latter takes the form of reducing public debt and/or hoarding international reserves, which are ways to prevent larger RER appreciation. Therefore it does not come as a surprise that the evidence on the simple association between aid and RER appreciation is very mixed in this sub-sample. Most post-conflict aid-recipient countries appear to have exercised the option of not fully absorbing or spending aid. All this suggests the absence of large-scale Dutch disease during the post-conflict cycle.[83]

There were, however, examples of post-conflict RER appreciation, but they seem largely disconnected from aid inflows. In El Salvador and Nicaragua and to a lesser extent in Burundi, the exchange rate did appreciate in the post-conflict period, and in all three cases post-conflict growth was disappointing. But Burundi experienced its RER appreciation seven to eight years after conflict, when aid inflows had begun to ebb. In the case of Nicaragua, the exchange rate continued to appreciate in spite of a rapid and sharp cutback in aid (from a high of over 70 percent of GNI a year after conflict to less than 25 percent three years after conflict). El Salvador did not experience a substantial post-conflict aid surge, with post-conflict aid peaking at seven percent of GNI one year after the end of conflict and decreasing steadily to less than 1.5 percent of GNI nine years after conflict (see Data Appendix).[84] Further, despite receiving larger inflows of aid than WGR countries on average, SGR countries did not face RER appreciation—on the contrary—so that competitiveness and export growth did not suffer (Figures 4.11 and 4.15).

BOX 4.5 LIBERIA CLEARS ITS ARREARS WITH THE IFIS AND REACHES HIPC DECISION POINT

On 18 March 2008, Liberia became the thirty-third country to reach its decision point and to qualify for debt relief under the enhanced HIPC initiative. The decision followed Liberia's clearances of its long-standing arrears to the IMF and the World Bank's IDA. It also came as recognition and in support of "the Government's steadfast pursuit of reforms over the last two years" and "will provide the boost needed to address the remaining, monumental challenges faced by this post-conflict country", according to Ms Obiageli Ezekwesili, Vice President of the Africa Region of the World Bank. Under the terms of the agreement, Liberia will receive interim debt relief from some creditors, but in order to qualify for irrevocable debt relief at the completion point, Liberia is expected to "maintain macroeconomic stability ..., prepare and implement a Poverty Reduction Strategy for at least one year; and implement pivotal reforms in the areas of governance, PFM [public financial management], debt management, as well as other structural and social measure". Upon reaching the HIPC completion point, Liberia will become eligible for World Bank assistance under its MDRI, from the African Development Bank and (beyond HIPC assistance) from the IMF.

The specifics of the Debt Relief Operation were as follows:

- Liberia's public and publicly guaranteed external debt was estimated at US$4.7 billion in nominal terms as of 30 June 30 2007.
- Debt relief under the enhanced HIPC initiative is estimated at US$2.8 billion in net present value (NPV) terms, equivalent to a 90.5 percent reduction of its debt after the full application of traditional debt relief mechanisms. Over time, this will reduce Liberia's debt service payment obligations by about US$4.0 billion in nominal terms.
- Following approval of the decision point by the Boards of IDA and the IMF, the IMF began to provide its share of HIPC assistance of [Special Drawing Rights (SDR)] 448 million in NPV terms (equivalent to US$732 million), of which SDR 20 million (or US$32 million) will be delivered through the concessional element of its arrears clearance operation over the interim period. IDA has already provided its share of HIPC debt relief (US$375 million in NPV terms) through the grant element embedded in the clearance of arrears to both the International Bank for Reconstruction and Development (IBRD) and IDA. Under the HIPC initiative's burden-sharing approach, the remaining estimated HIPC debt relief (US$1.7 billion in NPV terms) will be provided by Liberia's other creditors.
- MDRI debt relief from IDA could amount to US$36 million in NPV terms, assuming that Liberia reaches its completion point in the last quarter of 2010. Liberia is also expected to receive additional debt relief from the IMF to fully cover its remaining eligible debt outstanding at the completion point currently estimated at SDR102 million in NPV terms (or US$167 million).

Source: IMF, 2008d.

The way aid was used mattered. Uganda, for instance, avoided a loss of competitiveness due to aid inflows the same way Italy did in 1949: by not absorbing all of the (large amounts of) aid it received. Uganda refrained from using its aid inflows to import more than it exported. Uganda's concern to keep its exchange rate from appreciating may have been due to the fact that 75 percent of its population lives in rural areas and depends mainly on agriculture, its primary export sector, for its livelihood.[85]

It is important to recognize that while larger aid inflows may indeed pose both management and macroeconomic challenges to receiving countries, they also provide greater flexibility in finding uses that suit local needs.

Debt relief

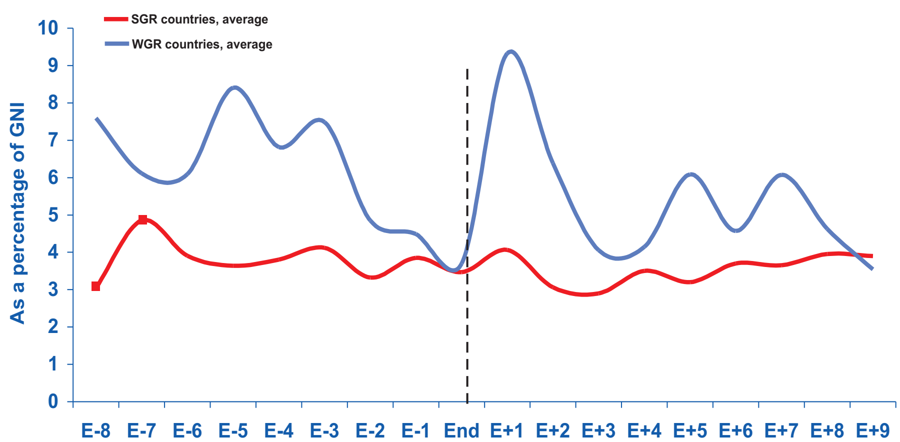
Aid in the form of debt relief does not provide a fresh inflow of external finance.[86] It does, however, provide some 'fiscal space' for the post-conflict state authorities by facilitating the lowering of interest rates, allowing for some incremental borrowing, and making it easier for subsequent aid inflows to be spent on recovery rather than used on repayments.

War is typically associated with a substantial increase in the stock of debt[87] and possible debt overhang,[88] with well-known pernicious consequences for macroeconomic prospects. The conceptual and technical questions raised by debt relief, either in the form of rescheduling or forgiveness, have been much debated as part of the design of the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives (HIPC and MDRI).[89] As these initiatives were not specifically designed for the post-conflict economy, there have been additional challenges utilizing them in such settings.

Countries in post-conflict recovery could benefit politically and economically in many ways from the prospect and process of debt relief, including through its signalling effect as a peace dividend and the greater room to manoeuvre that it provides.[90] For instance, debt relief may help reduce political grievances by freeing resources for urgent broad-based public spending.[91] Further, the debt relief process and its political and economic fallout may raise donors' incentives and options to provide more aid.

In recent years, multilateral debt relief mechanisms have been revised to provide greater flexibility regarding the length and content of the good 'track record' needed for the so-called 'decision point', the requirements for the 'completion point', and the pace of delivery of interim assistance.[92] While these revisions are favourable, they are not specific to post-conflict countries.[93] As a result, post-conflict countries continue to experience difficulties and delays in reaching both decision and completion points for post-conflict HIPC eligibility. In August 2007, 22 eligible countries had passed completion point, of which only six were post-conflict.[94] In contrast, six out of nine HIPC-eligible countries that have not reached decision point yet were post-conflict.[95] Post-conflict countries also tend to remain in the 'interim period' for an extended period of time,[96] reflecting the view that "prolonged periods for policy improvements and institutional strengthening are required in a post-conflict setting".[97]

Figure 4.19 **Debt service to GNI: SGR versus WGR countries**



Note: The WGR group does not include Namibia.

Source: World Bank, 2007a.

Debt relief does seem to have favoured SGR countries, even though the direction of causality remains a critical question. Except for Nicaragua, all the post-conflict countries that have passed completion point are SGR countries,[98] whose interest payments as a share of their GNI are two to three times lower than those of the WGR group in the few years after war (Figure 4.19).

Overall, over a third of both our SGR and WGR countries received some debt relief, which has contributed to lowering their debt ratios in the long term.[99] In many cases, however, their debt ratios remain unsustainable, and issues of debt overhang and constrained policy and fiscal space persist. Debt sustainability analyses suggest that Ethiopia, Nicaragua, Rwanda and Uganda (all post-com-

View of the harbor and container depot, Luanda, Angola, 2001 (Eric Miller/Panos Pictures)

pletion point countries) will not be able to maintain HIPC threshold ratios for the entire post-completion point period.[100] An internal World Bank review of debt relief finds that the HIPC initiative alone cannot reduce debt to sustainable levels but needs to be accompanied by efforts to improve the ability of countries to meet their remaining debt payments.[101]

Thus, engaging and monitoring the debt relief process early on as a driver of the larger peace and recovery process might yield more promising results than delaying the inevitable (debt relief) and risking the avoidable (conflict relapse). It is also clear that debt relief alone is not sufficient for recovery, and must be complemented by other measures to generate more dynamic economic activity.

Policy implications

The discussion of the use and management of ODA and debt relief for economic recovery has highlighted two policy implications. First, the benefits of ODA can be as political as they are economic. ODA can provide much-needed 'breathing space' to governments to build political consensus and goodwill, engage in broad internal consultations and plan better for the medium term. This requires from external partners early and more predictable disbursements of aid, as well as faster and deeper debt relief, in a manner that gives additional discretion to the beneficiaries. For governments of countries in recovery, it means using the early dividends and space provided by ODA to restore and reform institutional capacities and the policy-making process.

Second, ODA can have a significant effect on economic recovery if decisions on its use and management are made in a strategic and context-appropriate manner. Countries must answer important questions, such as what amount of ODA should be spent, what amount absorbed, and for what purpose, and these answers must be based on a sound analysis of the needs and constraints of the economy. In most cases, a strong argument can be made for spending most of the ODA received so as to help finance larger fiscal deficits in the face of massive recovery needs. But it may also make sense to save some of it depending on the prevailing conditions (level of debt, characteristics of the export sector, etc.). ODA in the form of technical assistance can also ensure that capacities to make such decisions are strengthened.

4.6 Conclusion

A few lessons may be drawn from the analyses, and particularly from the experiences of the countries that fared relatively well in post-conflict recovery. First, restarting and sustaining economic growth must be a central concern for policy makers. An increasing level of output per capita provides the foundation for economic recovery. It indicates that people are getting their lives back and that the country is back in business. To this end, implementing reforms to improve the investment climate is key. To be clear, economic growth does not fully capture or ensure sustainable economic recovery. But it is a necessary condition. There is no example of long-term post-conflict recovery without a sustained increase in output per capita. Higher income levels increase the opportunity cost of conflict and help consolidate peace. They also create opportunities and widen options. Growth constitutes a good second-best indicator that the deeper structural changes that robust economic recovery implies are actually possible.

> There is no example of long-term post-conflict recovery without a sustained increase in output per capita.

Among the most pressing structural changes is the need to pay greater attention to the distributive impact of growth. There is no evidence of a necessary trade-off between the growth and equity objectives of economic policy. On the contrary, strong recovery countries are also those that paid more attention to social inclusion and equity. It is feasible and desirable, therefore, to ensure in the post-conflict context that growth is inclusive and broad-based—i.e. that it benefits all groups and income levels. For growth to be inclusive and broad-based, it has to support those sectors of the economy in which most people are engaged, chiefly agriculture. In addition to well-targeted livelihoods and employment programmes, this requires the avoidance of currency appreciation in economies that are highly dependent on agricultural exports. Even inclusive and broad-based growth may not, however, be sufficient to redress horizontal inequalities as quickly as is needed to avoid the risk of conflict relapse. In such settings, more ambitious, voluntaristic redistributive reforms and social programmes might be needed.

> Strong recovery countries are also those that paid more attention to social inclusion and equity.

Second, the experiences of the strongest performers point to the importance of timing and sequencing and to the benefits of a gradualist approach to reforms. Post-conflict economies are analogous to damaged engines, which regain their functioning and increase in power as key pieces are repaired and fuel is provided in greater quantity and better quality. This suggests that there are first-order priorities, such as reducing the risk of conflict, promoting the resumption of investment activity and installing an

Money changer with bundles of notes, Monrovia, Liberia, 2000 (Heldur Netocny/Panos Pictures)

appropriate institutional framework. Other considerations are probably not at the same level: bringing down inflation to single-digit levels, pursuing competitiveness or raising taxes right after conflict ends. Policy makers should promote recovery that is self-reinforcing, by building on early economic and political dividends to generate goodwill and buy-in for subsequent reforms. Excessively complex reforms, particularly in the domains of financial liberalization and privatization, risk backfiring if a proper regulatory regime is not yet in place.

Indeed, the first years after the end of conflict appear to be crucial. The data presented in this chapter show a clear tendency for SGR countries to fare significantly better than WGR countries according to various indicators in the early post-conflict years, presumably setting the stage for stronger medium- to long-term performances. The question is not whether quick action is needed, but what set of policies is most appropriate in the immediate aftermath of conflict, and is more likely to create the conditions for recovery. Importantly, there is evidence of the catalytic role that earlier, deeper donor involvement may play—through debt relief, project or programme aid—by providing the type of breathing space that is so precious in post-conflict settings, especially when ODA is likely to constitute the main source of finance for several years.

Third, as noted above, political will, conflict sensitivity and context appropriateness appear to be key ingredients for success. The common refrain that 'there is no one-size-fits-all' policy package applies particularly to complex and volatile post-conflict economies. This means that there is no unique path to recovery and that policies should be based on country circumstances, with a particular emphasis on the drivers and dynamics of conflict. More broadly, what works in one country may not necessarily work in another; the examples of 'orthodox' Mozambique and 'unorthodox' Vietnam highlighted the simple fact that there are multiple paths—or policy mixes—that can lead to recovery. On this note, the use of ODA must also respond to domestic realities and needs. Some countries occasionally 'saved' some aid to bring down their debt or build reserves and prevent their currency from appreciating rather than to purchase imports or finance fiscal deficits. In some cases, these decisions were appropriate as they tended to boost exports and protect the large rural and agricultural economies that characterize many conflict countries, especially in Africa. In that regard, early debt relief may increase the flexibility of countries in their use of aid inflows.

> First-order macroeconomic priorities are reducing the risk of conflict, promoting the resumption of investment activity and installing an appropriate institutional framework.

What most successful countries have in common is that they introduced reforms in a way that was compatible with the prevailing domestic political and economic realities. In addition, these countries typically had governments and that were serious about economic reform and catalysing post-conflict recovery.

While they do not provide a ready-to-use recipe, these considerations—supporting economic activity and ensuring that it benefits many rather than few; acting early on in a strategic, gradualist and well-sequenced manner; recognizing and addressing the specific needs and risks on the ground—could constitute a platform for post-conflict economic policy making.

Chapter 4 notes

1 As was the case in Guinea-Bissau and the Central African Republic. Ghura and Mercereau, 2004.

2 Vietnam is not formally included in the list of post-conflict countries examined in this report as the conflict ended and recovery began before 1989. However, it remains a useful case from which to learn lessons for successful recovery.

3 To give an order of magnitude this means that at this rate GDP per capita in these countries will double in roughly 17 years.

4 Employment growth was highlighted in Chapter 3 as a crucial condition and positive expression of post-conflict recovery. Hence, we would also like to measure recovery by how successful growth is in producing a rapid expansion of employment opportunities. Unfortunately such data is often impossible to generate in the immediate aftermath of war. Most countries that are members of the Organisation for Economic Co-operation and Development (OECD) in fact only began monitoring unemployment in earnest after World War II. Though ILO data is improving, very few countries have annual employment data (El Salvador is an exception), and employment in the informal sector is very difficult to define and track in any case. Since the Great Depression the main mandate of macroeconomic policy has been on reducing unemployment (even though much of their focus has actually been on keeping inflation low); unfortunately, in the poor, rural agriculture-based economies now frequented by conflict, unemployment is hard to measure, and consistent data on employment is almost non-existent, in part because most employment is in the informal and almost by definition unmeasured sectors of the economy.

5 There is also a third group of countries that are not part of this analysis, where conflict is either localized in one region such that economic activity is not significantly disrupted (such as Aceh province in Indonesia or the contested areas of Sri Lanka), or where conflict is still ongoing.

6 Here and throughout the chapter, 'average' growth rate refers to *annualized* growth rate, i.e. the constant annual growth rate that would have yielded the observed growth rate over multiple years, rather than *simple* averages.

7 The countries that are listed in either table are post-conflict countries listed in Chapter 1 for which sufficient data was available. The start and end dates considered are based on the information and data provided in four major databases. Given the difficulty in clearly defining when a conflict started, ended or paused, there are some differences among the

sources. In these cases, we used the Uppsala database as the primary source. See UCDP, 2008. Occasionally, a judgement call was required regarding end and start dates, as the Uppsala database often continues to measure low-level violence after the accepted end to a conflict. This was approximated based on when the conflict fell into the category of a 'minor' one (under 1,000 deaths per year) in the Uppsala database. Further, the report focuses on the entire period in which economic activity was disrupted, which may include some short-lived peace periods within the conflict period.

[8] In this figure, as in all the subsequent ones in the chapter, the countries in each group are as listed in Tables 4.1 and 4.2 unless otherwise mentioned.

[9] This would mean that the growth performance reflects, for instance, largely unused productive capacities and lower GDP levels at the end of conflict for instance, than a deeper transformation that could lead to a long-term sustained increase in output. Note that the majority of, but not all, countries were in conflict during the entire 5-year period before the end of war considered in Figure 4.1. Note also that post-conflict data does include observations for the countries whose recovery period is less than 9 years.

[10] France's GDP per capita also grew 16% the first year after the WWII ended before falling back to more sustainable but still substantial single-digit growth the following year. See Saint-Paul, 1994.

[11] Which could be the case in the Democratic Republic of the Congo, Angola and Sierra Leone, since they are less than 6 years out of conflict.

[12] The transient decline in weighted average per capita growth 7 years after the end of conflict seems mostly driven by Ethiopia.

[13] To be fair, it is possible that with a bit more time the Republic of Congo for instance could join the ranks of the SGR countries.

[14] Significantly, the countries in both groups do not otherwise differ substantially in their characteristics. The pre-conflict average GDPs of countries in both groups are quite similar (averaging US$783 over the 5 years before conflict in SGR countries for which data is available, and US$737 for WGR countries for which data is available. See World Bank, 2007a. In addition, both the length and end date of conflict in the two groups are very similar, as evidenced by their respective average numbers of years in conflict and post-conflict. Admittedly, our approach cannot control for all observable and non-observable factors, but these characteristics cast doubt on the hypothesis that post-conflict trends simply reflect major pre-conflict differences or 'time-specific' factors. It does seem that the explanation lies, at least in part, in the different post-conflict *policy* experiences of the countries.

[15] See Data Appendix for the specific countries. For further information see Collier et al., 2003.

[16] i.e. inflation during conflict when conflict spanned over more than 5 years, which is the case for all countries but Azerbaijan, Bosnia and Herzegovina, Côte d'Ivoire, Croatia, Guinea-Bissau and Solomon Islands.

[17] As of 2005, some 70 percent of the population were still in abject poverty despite a growing economy. *The Economist*, 2005b. In 2003, the Directors of the IMF Executive Board "noted that decisive structural reforms beyond the oil industry are essential to fostering economic diversification, creating employment opportunities, and increasing productivity in the non-oil economy" (IMF, 2003), and in 2007, the Directors "called for faster structural reform to develop the non-oil sectors of the economy" see IMF, 2007c.

[18] In a 'growth incidence curve', the total income of the population (generally from household surveys) is recorded at two points in time and divided among 100 or so groups each including one percent of the population or households.

[19] James et al., 2005.

[20] Addison, 2005.

[21] Kappel et al. 2005.

[22] Technically, comparisons are based on the IDA Resource Allocation Indices (IRAI), used as part of the Country Policy and Institutional Assessment. In this section and throughout the report, however, we simply refer to the IRAI as CPIA ratings.

[23] Croatia, Lebanon, and Liberia are the three SGR countries for which no CPIA ratings were available in 2007; El Salvador, Guatemala and Namibia are the three WGR countries for which no CPIA ratings were available in 2007.

[24] It can also be noted that the SGR countries sampled score higher on average than the WGR countries sampled in the three other CPIA clusters as well: 'Economic Management', (+ 24.7%); 'Structural policies', (+ 8.1%); 'Public Sector Management and Institutions' (+ 6.9%).

[25] Like any rating system that depends on the subjective judgments of experts, the CPIA has important limitations. One problem is reverse causality: good economic performance may influence policy ratings even though the CPIA evaluators

are explicitly instructed to focus on policies not outcomes. Also those who evaluate policies often work closely with the government and even author the policies being evaluated. Still ratings in specific areas may reveal relative strengths or weaknesses in institutions and policy, even when overall ratings are swayed by good performance or close relations with World Bank officials.

[26] The HDI is "a summary composite index that measures a country's average achievements in three basic aspects of human development: health, knowledge, and a decent standard of living. Health is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio; and standard of living by GDP per capita (PPP US$). For source and details on the HDI calculation, see UNDP, 2008a.

[27] Note that our post-conflict countries include 7 of the 10 countries with the lowest-ranked HDI levels in the world.

[28] Chad ranks extremely poorly in all indicators and indices of the HDI (158th in terms of life expectancy, 137th for adult literacy, 162th for enrolments ratios and 151th for GDP per capita in 2007. See UNDP, 2007a.

[29] Research on recovery from conflicts (and natural disasters) has flourished in the past two decades and great insights have been provided by the statistical analyses of economists and political scientists alike. Many of the results found in this literature apply to this group of countries, and are noted as relevant. However, it is also the case that countries recovering from civil conflicts after 1990 present a unique set of challenges and opportunities, which is one reason we turn to the countries themselves for evidence on what works and what does not.

[30] For example, the Mozal aluminium smelter has contributed to strong export performance and attracted more than US$1 billion alone in foreign investments. See World Bank, 2007e for more details.

[31] One study finds that in the 1990s, over US$100 billion were spent on assisting three dozen nations recover from conflict. See Forman and Patrick, 2000.

[32] See UNDP Cambodia, 2006 for a further discussion of the details and effects the recent oil discoveries may have on the recovering economy.

[33] This was due partially to Southeast Asian investment in textile exports in Cambodia to take advantage of their quota-free access to American markets, part of the Paris Peace Agreement in 1991. See Bargawi, 2005.

[34] Kulipossa, 2006.

[35] This does not contradict the fact that high inflation and high growth rates are compatible. Avoiding hyper inflation, (defined as inflation rates exceeding 50 percent per month), does not necessarily mean inflation must be brought down to single-digit levels.

[36] For an assessment of post-conflict recovery in Uganda, and particularly, the World Bank's support role, see Alcira et al., 2000.

[37] For a broader discussion of privatization and conditionality practices at multilateral agencies such as the World Bank and the IMF, see Bull, Jerve and Sigvaldsen, 2007.

[38] Kauffmann and Wegner, 2007.

[39] Keen, 2005

[40] Addison et al., 2001 p. 6

[41] Schwartz and Halkyard, 2006, p. 2-3.

[42] Addison et al., 2001.

[43] Starr, 2004.

[44] McKinley, 2004.

[45] Honda and Schumacher, 2006.

[46] Coats, 2007.

[47] Coats, 2007.

[48] Starr, 2004.

[49] Akitoby, 2004.

[50] Hausmann and Rodrik (2005) claim that El Salvador's slow growth has been caused by an exchange rate appreciation. Elbadawi et. al. (2007) also present some empirical evidence that an overvalued exchange rate slows growth in a sample of 78 post-conflict and other developing economies. Rodrik, 2004 further argues that the sharp depreciation of Uganda's exchange rate contributed to its rapid recovery after 1989 (see also Figure 4.11).

[51] Starr, 2004, p. 20.

[52] The competitive index is a trade-weighted 'real' or inflation-adjusted, exchange rate—with the year conflict ends set to 100 for both SGR (red) and WGR (blue) countries—showing the price of a bundle of consumer goods relative to the price of traded goods. Since consumers prices have a significant wage component, a falling index means wage costs are falling for exports (and the price of imports is rising for wage earners). Both effects tend to benefit local producers of traded goods. Though the aid surge is larger in strong recovery countries, the inflation-adjusted exchange rate does not appreciate; instead it becomes weaker, making exports more competitive and imports more expensive. Consistent with an increase in competitiveness, exports increase more rapidly in the SGR countries.

[53] "The size of government revenue relative to GDP in war-torn societies typically is far below the average for other countries with similar per capita income." Boyce, 2007, p. 4, based on Gupta et al., 2007, who finds a negative relationship between government revenue and conflict in a sample of low- and middle-income countries. Addison et al., 2004 report that the intensity of conflict, as well as its presence, negatively affects the revenue/GDP ratio.

[54] Carnahan, 2007, p. 3.

[55] Boyce, 2007.

[56] Hubbard, 2005.

[57] Wheeler et al., 2006.

[58] Davies, 2007a.

[59] Heinz (2006) presents evidence that frequent reductions in inflation slow employment growth, disproportionately affecting women. Recent studies suggest that targeting inflation rates below 5 percent may damage short-term employment creation while inflation rates between 5–15 percent contribute to sustained employment growth. For more information see Goldsbrough, et al, 2007.

[60] Boyce, 2007.

[61] The Central African Republic is a useful case to examine but was not included in either group because it did not reach the threshold of 1,000 deaths in the period examined.

[62] Ghura and Mercereau, 2004, p. 4.

[63] Civil unrest often accompanies periods of sustained high inflation in developing countries. Hyperinflation in Argentina sparked violent clashes in the 1980s and early 1990s (See Brooke, 1989), while rampant inflation in Zimbabwe inspired ongoing strikes in medical, education and mining sectors at the turn of the century, see USIP, 2003. More recently, frustrations over rising global food and oil prices have fuelled global unrest, inciting violent riots in countries such as Burkina Faso and Cameroon. See Musa, 2008.

[64] El Salvador's *Red Solidaria* represents a concerted effort to incorporate the poorest groups in rural areas and to boost education and health investment. See Britto, 2007.

[65] Rodas-Martini, 2007.

[66] Boyce and O'Donnell, 2007.

[67] Gupta et al., 2005.

[68] Casella and Eichengreen, 1994.

[69] Lewarne and Snelbecker, 2004.

[70] The 22 member countries of the OECD Development Assistance Committee, the world's major donors, provided USD $103.7 billion in aid in 2007. See: OECD, 2007.

[71] UNCTAD, 2006, pp. 66-69.

[72] Casella and Eichengreen, 1994.

[73] To increase the overall supply of goods available aid must lead to an increase in imports over exports. Aid which does increase the trade deficit is said to be 'absorbed'. Similarly, aid to government can be 'spent' on goods and services in excess of domestic revenues: aid used to finance additional government spending is said to be 'spent'. But in both cases governments may choose to 'save' aid funds by paying down domestic or foreign debt or by accumulating reserves. Various methods of 'saving' aid inflows are frowned upon by donors who generally want aid funds to finance particular projects and programs (as did Marshall Plan administrators).

[74] Dornbusch et al., 1993 pp. x–xi.

[75] Saint-Paul, 1994 and Casella and Eichengreen, 1994.

[76] See Casella and Eichengreen, 1994, for a further discussion of stabilization in these two countries.

[77] Staines, 2004.

[78] This might seem an obvious conclusion, but the controversy over aid effectiveness and even more so about the adverse effect on aid indicates that it is not.

[79] There is no compelling evidence that higher levels of ODA reduce governments' incentives to raise domestic revenues. And if such were the case, some form of 'aid conditionality' could be imposed as a corrective.

[80] McKinley, 2004.

[81] Aid or any large inflow of foreign currency tends to make the local currency stronger, and raise the price of non-traded goods. If the exchange rate is fixed, this can be inflationary, unless monetary policy is tight to the point that wages fall in nominal terms. In turn, currency appreciation reduces the potential profits of exporters and import competing industries, including agriculture and foodstuffs (where imports are available) and dampens the demand for traded goods, thereby slowing economic and employment growth. There is a number of scenarios under which aid inflows need not lead to currency appreciation, for instance if it increases the productivity of non-traded goods sectors, including people, electricity, rents etc. A fall in the price of non-traded goods caused by aid could be one longer term reason currencies do not appreciate, but a different explanation is pursued here.

[82] Elbadawi et al., 2007.

[83] Elbadawi et al., 2007, p.9.

[84] Though remittances did increase sharply, and the large increase in remittance inflows was associated with a decline in domestic savings and investment.

[85] See Reinikka and Collier, 2001 for a more detailed analysis of the effects of Uganda's post-conflict economic policies.

[86] Under the OECD Development Assistance Committee's scoring of ODA, debt relief is eligible to be reported as ODA in the year it is granted. OECD, 2008b.

[87] Alvarez-Plata and Brück, 2006.

[88] Debt overhang refers to the situation when a country's debt is sufficiently large that expected debt service costs deter foreign and domestic investment. See Sachs, 1989.

[89] For a brief description of the HIPCs and MDRIs see IMF, 2008b.

[90] Addison et al., 2004; Addison and Murshed, 2001; Alvarez-Plata and Brück, 2006.

[91] Addison and Murshed, 2001.

[92] The 'decision point' is the point at which countries have qualified for assistance under the enhanced HIPC Initiative; the 'completion point' is the point at which countries that have qualified for irrevocable debt relief under the enhanced HIPC Initiative and have received MDRI relief. See IMF, 2008c.

[93] The clearance of large protracted arrears to international financial institutions that characterize many conflict-affected countries (notably Liberia, Somalia and Sudan), which is a critical pre-condition for resuming normal working relations with international creditors, is one area where innovative and specific approaches have been devised, including bridging loans secured from bilateral donors in order to clear arrears and resume international financial assistance. But timing gaps between arrears clearance operations and HIPC decision point have created additional fiscal burdens on cash-constrained Treasuries. See Alvarez-Plata and Brück, 2006; IMF, 2008c.

[94] IDA and IMF, 2007. These 22 countries are Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Malawi, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia.

[95] The nine countries are Central African Republic, Kyrgyz Republic, Sudan, Comoros, Togo, Côte d'Ivoire, Nepal, Eritrea, Somalia.

[96] For up to five years. The interim period refers to the time between the decision and completion points under the HIPC Initiative. As of August 2007, post-conflict interim countries were Afghanistan, Burundi, Chad, Republic of Congo, the Democratic Republic of the Congo, Guinea-Bissau, Haiti and most recently Liberia, while Guinea and the Gambia were non-conflict affected interim countries. IDA and IMF, 2007.

[97] IDA and IMF, 2007, p.11.

[98] Nicaragua's conflict ended in 1990, which may explain why it has managed to reach completion point.

[99] Quartey, 2002. The debt ratios increase in the immediate aftermath of a peace accord, as external funds begin flowing in, but then decrease over time, particularly after debt relief.

[100] Kitabire and Kabanda, 2007.

[101] World Bank, 2006f.

Economic Recovery and the Role of the State

A UN vehicle passes by a sign "If You Cannot Help Us, Please Do Not Corrupt Us" welcoming visitors arriving at Lungi airport in Freetown, Sierra Leone, April 2002. (Teun Voetten/Panos Pictures)

5.1 Introduction

In even the most war-damaged environments, economic activities continue and populations retain some ability to rebuild based on their own resources, ingenuity and energies. When conflict ends and basic security is established, some degree of spontaneous recovery always occurs. People return to their homes and livelihoods, or adapt to new conditions to engage in other forms of entrepreneurship or income-generating activities, often in the informal sector. This element of early post-conflict recovery may contribute to a significant spurt in growth in the immediate aftermath of war.

Too often, however, such growth is short-lived. As discussed in the preceding chapters, there are several reasons why this may happen. Continuing security challenges and unresolved political, legal and social disputes may undermine the confidence of individuals, communities and businesses. For example, uncertainty over the final status of Kosovo and the international status of the Somaliland region has impeded their ability to benefit from fuller integration into the global economy.[1] Similarly, inadequate resources for the restoration of basic economic infrastructure, such as roads (especially rural roads), energy or communications, can undermine progress towards successful post-conflict economic recovery.

A decisive factor in determining whether the early impetus for economic revival translates into sustainable recovery and longer-term development is the leadership and capacity of the post-conflict state. Leadership is needed to ensure that the productive energies and assets of households, communities and enterprises are adequately channelled towards the recovery effort. The leadership of the state is also needed to foster and protect an enabling environment for economic activity that can promote both security and growth. Indeed, the broader peacebuilding community now generally recognizes the indispensability of a functioning state to post-conflict stability and recovery.[2] This is why it has placed a high premium on assisting war-torn countries to rebuild their institutions and capacities for accountable and effective governance and, in some cases, to redress the legitimacy and capacity deficits that contributed to armed conflict in the first place.

> The most critical post-conflict governance needs include the creation of a professional public administration; the rebuilding of representative and inclusive political institutions; and the establishment of accountability mechanisms.

The most critical governance and institutional needs for post-conflict recovery are the restoration of the state's capability, including the creation of a professional public administration and civil service; the rebuilding of representative and inclusive political institutions; and the establishment of mechanisms for oversight, accountability and financial controls. Critical as these needs are, there is little agreement on how best to achieve them. Much of the research and policy attention has focused on the role of external actors in post-conflict state building, rather than on the role of domestic players in fashioning their own institutional capacities for economic recovery.[3]

This chapter looks at the role of the state from the angle of the leaders on the ground. The next section provides context by summarizing the normative characteristics of functioning states. The following section focuses on the broad question of the role of good governance—as measured by some common indicators—in the process of economic recovery. The subsequent section examines alternative approaches that post-conflict countries have adopted in rebuilding effective institutions of governments in order to lead the process of economic recovery. The fifth section discusses the main elements of reconstituting the capacity of post-conflict states. It looks first at the question of rebuilding the civil service, and then at some specific mechanisms such as tax and expenditure regimes and the role of external assistance. The chapter concludes with a summary of the implications for international efforts that aim to foster self-sustaining state capacities for post-conflict economic recovery.

5.2 The elements of a functioning state

It is generally recognized that a functioning state must demonstrate three critical attributes. These are authority, legitimacy, and effectiveness.[4] These features are interlinked, as lack of authority diminishes effectiveness, while states that are unable to deliver services may lose authority and legitimacy. Typically, post-conflict states are weak on at least one, and often all, of these dimensions. In cases where war has been won by decisive military victory, such as Angola, authority is likely to be quite strong but legitimacy and effectiveness may remain low, at least in the first few years after the conflict. Such an outcome would be particularly likely where victors hesitate to initiate inclusive political and economic reforms. In cases where the post-conflict country is a newly created state, such as Timor-Leste, a strong sense of national solidarity means that legitimacy is likely to be very high, but the very newness of the state may mean that its authority is weak, as is effectiveness, because basic political, security and economic institutions may be lacking.[5] Where war has left some functioning institutions, and where political consensus exists on peace consolidation and reconstruction, governing institutions are likely to have a reasonable level of authority and effectiveness.

> For a state to function properly, it must demonstrate authority, legitimacy, and effectiveness.

- ***Authority:*** Perhaps the most fundamental aspect of a viable state is its ability to provide basic physical security throughout its territory. At a minimum, the state should be able to fend off armed challengers and to exercise a 'legitimate monopoly of violence' within its borders. It should also be able to provide its citizens, and their property, protection from criminal violence and from the predations of the powerful. In this broader sense, re-establishing authority requires reforming the security sector—including rebuilding the police and the judiciary—as well as disarming non-governmental forces. Where the state lacks the authority to provide basic security, recovery, reconstruction, resettlement and investment in productive economic activities will be impeded. As several recent studies confirm, a secure environment is the single most important factor for developmental progress in countries afflicted by armed conflict.[6] Not only does basic security give confidence to war-affected populations to return and rebuild, it also gives confidence to foreign donors and businesses to invest greater resources in economic recovery.
- ***Legitimacy:*** A legitimate state is one that is representative of, and accountable to, its citizens. To heal the deep divisions of war, legitimacy depends upon a credible system of political inclusion of major societal groups at all levels of government. Typically, in post-conflict settings, legitimacy is reconstituted through the political process, including peace agreements, constitutional conventions and transitional democratic elections. However, while these political reforms are desirable, they are not always necessary or sufficient to ensure the broader legiti-

macy of the state. Especially where predatory and exclusionary governments contributed to the outbreak of war, populations are likely to view the state, if not reconstituted, with distrust and fear. A legitimate government is one that provides palpable benefits, such as security, justice, basic services and economic opportunity, and does so in ways that are responsive to local needs. The greater the legitimacy of a government, the easier it will be for a government to gain the compliance of citizens and producers in paying taxes to underwrite public goods.

- *Effectiveness:* To secure lasting peace, states must be reasonably capable and effective. Even the most democratically-constituted states will be unviable in the absence of administrative capacity to implement peace agreements, enforce rule of law, rebuild physical infrastructure and reconstitute local government. From the perspective of sustainable economic recovery, an effective state must have the capacity to initiate appropriate economic recovery policies; mobilize revenues to underwrite the costs of state reconstruction and socioeconomic recovery; and provide core public services, including citizen security and the protection of property, essential social services such as health and education, and basic economic infrastructure such as energy. Rebuilding state capacity requires the restoration of core institutions of economic governance and fiscal administration and, where necessary, rebuilding a cadre of competent, professional civil servants. Without the policy-making and administrative capacity to generate economic activity, protect investments and provide basic social services, governments will remain vulnerable to the dual traps of poverty and violence.[7]

Political stability and economic recovery depend, ultimately, on resolving these three basic challenges. As discussed in Chapter 3, war-torn societies exhibit a wide range of capacities and resources for self-help, some of which may have even been strengthened by the adverse conditions of war. Even in the most extreme cases of state collapse, such as Afghanistan, Liberia and the Democratic Republic of the Congo, the institutional environment is not *terra nullius.* Community organizations, traditional authorities and even non-state armed groups may have sustained prior practices of administration and governance, or built basic organizational capacity and legitimacy that survives the overall destruction of the state. Acknowledging, working with and managing these proto-institutional endowments, however imperfect, contribute to building more robust forms of governance, and failing to do so may jeopardize the legitimacy and effectiveness of post-conflict authorities.[8]

The primacy of the political: rebuilding the social contract

For war-torn countries, the real challenge is often not the reconstruction of state structures. In many cases, state structures themselves have been implicated in the eruption of violence in the first instance. The real challenge lies, therefore, in instituting the attributes of legitimacy, authority and effectiveness which were wanting before or have been destroyed by the conflict. This is a highly transformative process. And, because it is called for in settings where political consensus is weak, political legitimacy is fractured and vested interests are powerful, it is also an inherently conflictual one. In these contexts, seemingly benign technical decisions about rebuilding institutional capacities, improving governance, ensuring responsible fiscal oversight or promoting rule of law often carry exceptional significance and have profound distributional and political ramifications. Much depends on the specific political dynamics of each post-war environment. State-building reform programmes must, therefore, be particularly context appropriate and conflict sensitive.

The restoration of authority, legitimacy and effectiveness is a long-term project. Its success depends largely on the domestic contestations over power and wealth, and the ability of the society to determine for itself the nature of the social contract between the government and the governed. This is not merely a plea for the primacy of 'local ownership'. Fundamentally, it is recognition of the historical record of state formation and the importance of indigenous political and economic relations in shaping the social contract from which legitimacy and effectiveness emerge.[9] From this perspective, even the best-designed and best-resourced technical and financial strategies for improved governance in post-conflict settings can fail to generate the enabling conditions for domestic actors to negotiate a viable social contract. Put simply, the social contract is a reciprocal relationship between state provision of security, justice and economic opportunity and citizen acceptance of the authority of the state.[10] The ultimate measure of an authoritative, legitimate and effective post-conflict state is its success in re-establishing such a social contract.

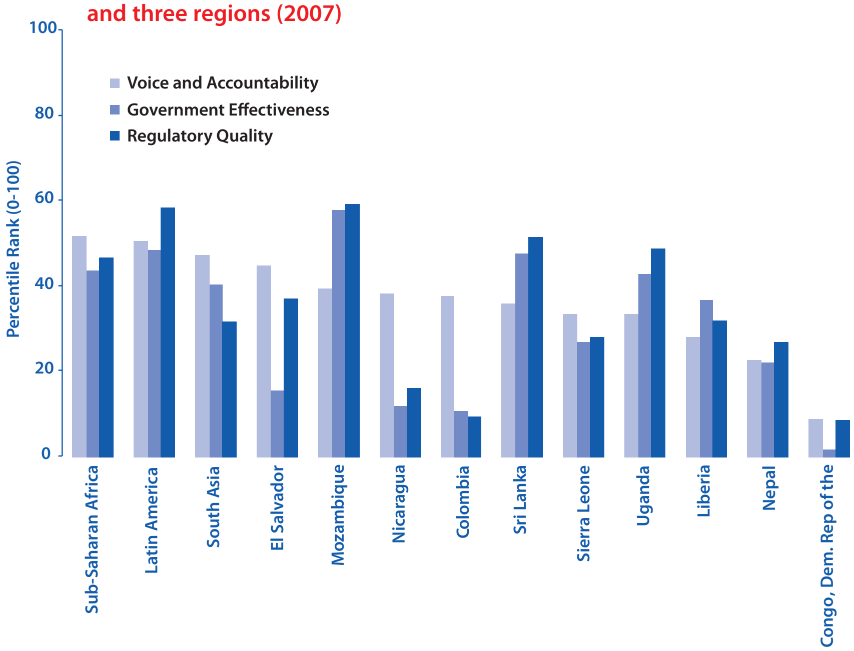
5.3 The challenges of post-conflict governance

The existence of a (positive) correlation between good governance and a broad range of desirable development outcomes is widely recognized, although the direction of causality has not been established.[11] Improvements in such areas as political environments, legal frameworks and democratic accountability have been linked to better economic and social indicators, including per capita income, maternal and child health, and literacy. Overall, it is believed that good governance pays a large development dividend. In the specific context of economic recovery, good governance includes the capacity of governments to formulate sound economic policy, provide effective regulation and oversight, and manage public revenues and expenditures in an efficient, equitable and transparent manner.[12]

The diverse characteristics of post-war states

There is considerable variation in governance performance among post-conflict countries, as shown in Figure 5.1. The chart presents recent governance indicators for selected post-conflict countries, juxtaposing them against the regional averages for sub-Saharan Africa, Latin America and South Asia. The indicators come from a quality-of-governance survey undertaken for the World Bank, which aggregates the views of a large number of enterprises, citizens and experts in both industrial and developing countries.[13] The dimensions of governance of particular interest for this report are defined as follows: 'voice and accountability', "measuring perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom

Figure 5.1 **Some governance indicators for selected post-conflict countries and three regions (2007)**

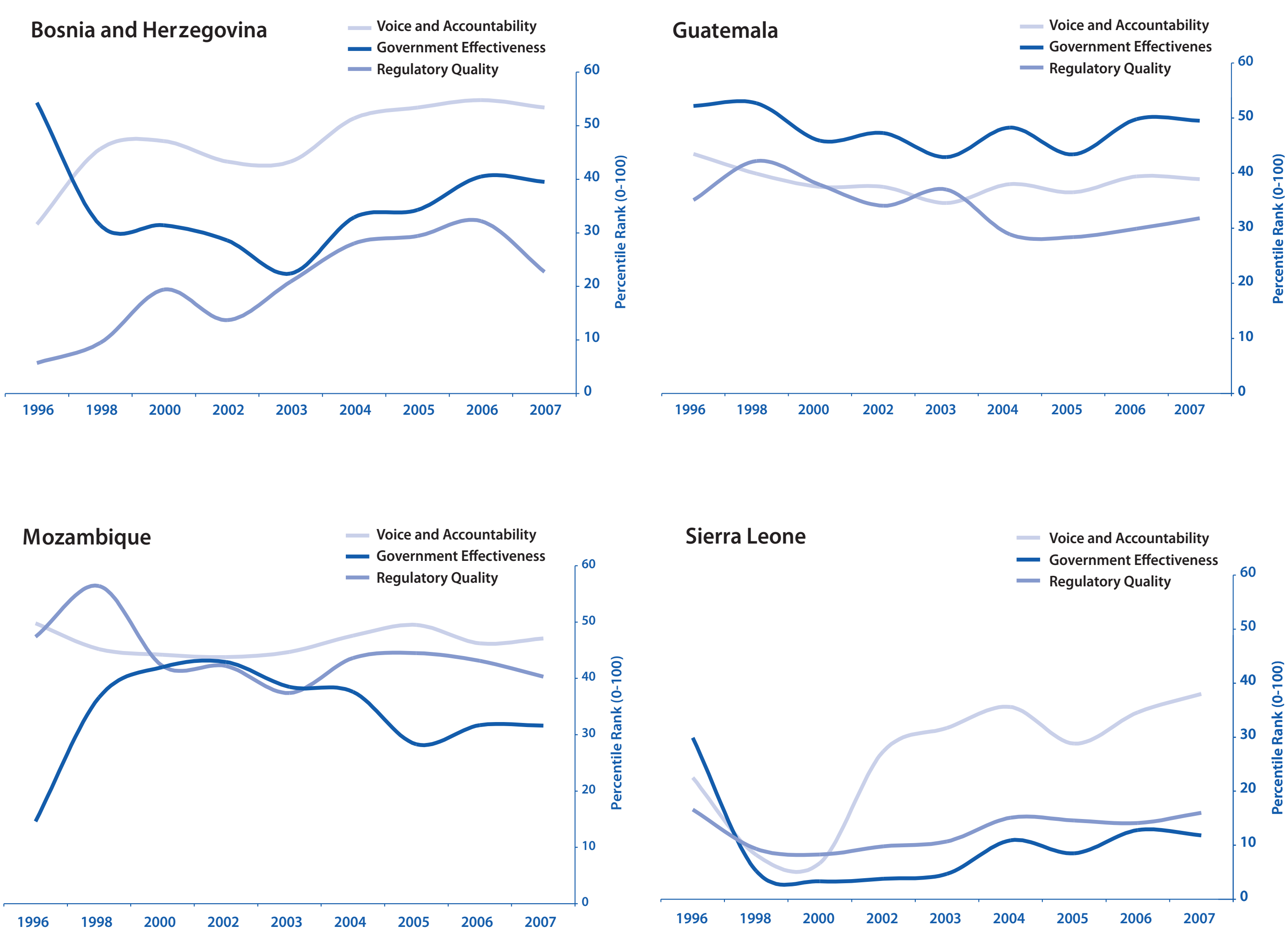


Kaufmann et al., 2008b.

of association, and a free media"; 'government effectiveness', "measuring perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies"; and 'regulatory quality', "measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development".[14]

Figure 5.1 shows that some conflict-affected countries managed to retain reasonably good performance levels (compared to regional averages). For instance, Sri Lanka, El Salvador, Mozambique and Uganda display performances on the three indicators that are at or above their respective regional averages. In contrast, Sierra Leone and Liberia are well below sub-Saharan averages on two indicators, while the Democratic Republic of the Congo is below on all three.

Figure 5.2 **The evolution of governance indicators for selected post-conflict countries**



Authors' compilation based on data drawn from Kaufmann et al., 2007.

Different post-conflict countries have fared differently in establishing or rebuilding functioning state institutions. Figure 5.2 shows the evolution of the governance situation from 1996 to 2006 for four post-conflict countries: Bosnia and Herzegovina, Guatemala, Mozambique and Sierra Leone has made significant progress in all three governance indicators (i.e. 'voice and accountability', 'government effectiveness' and 'regulatory quality') since the end of civil war in 1995. Sierra Leone has also done particularly well with regard to improving 'voice and accountability' since its civil war ended in 2001. In contrast, Guatemala and Mozambique have made much less progress. In both countries, governance performance has remained more or less the same (and sometimes has slightly worsened) since their civil wars ended in 1995 and 1992, respectively.

The importance of the rule of law

The rule of law is associated with basic justice, which is at the core of international peacebuilding efforts. As the UN Secretary-General affirmed in his 2004 *Report on the Rule of Law and Transitional Justice in Conflict and Post-Conflict States:*

> [The rule of law is] a principle of governance in which all persons, institutions and entities, public and private including the state itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated and which are consistent with international human rights norms and standards.[15]

The rule of law has invariably failed when countries enter conflict and remains precarious for a long time after conflict ends. Figure 5.3 shows the state of the rule of law in some post-conflict countries several years after the cessation of hostilities. Without rule of law, citizen and community security are likely to remain uncertain. Lowering the levels of economic criminality requires the capacity to prosecute economic predators. Improved security is required for people to re-engage in their livelihoods and is an important enabler of private sector return. Rule of law is also the proper context in which to establish the appropriate framework to protect investments, enforce property rights and resolve property and commercial disputes.

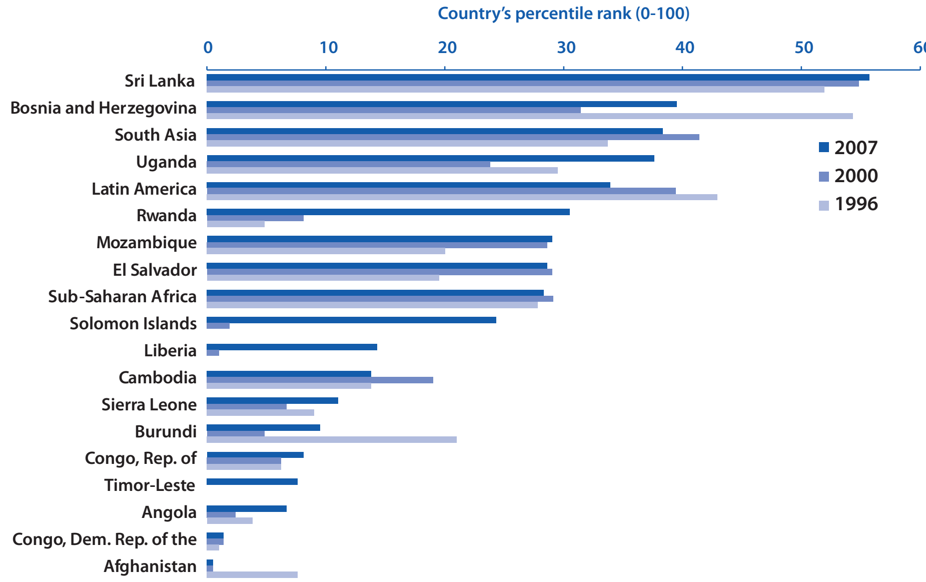
Many post-conflict authorities, with some help from external partners, are placing considerable emphasis on efforts to establish the rule of law. In some cases, as a prerequisite to the disbursement of funds, donors are demanding that national governments agree to direct international engagement in the rule of law in a way that may compromise aspects of state sovereignty. For example, the Governance and Economic Management Assistance Program (GEMAP) concluded in 2005 between the (then) Transitional National Government of Liberia and international donors (the International Contact Group for Liberia) requires international participation in such judicial functions as the Anti-Corruption Commission.[16]

More and more, external partners, sometimes including multilateral agencies, are getting involved in judicial projects, commercial legislation and even legislative reform. It has indeed been observed that "IFIs have started to take a position on what laws are good laws rather than simply advocating the consistent promulgation and enforcement of laws irrespective of their content".[17] It is generally accepted that the role of external partners should at best be advisory and should be based on member state consent. In post-conflict societies, however, the poor state of its systems and the absence of high-level functionaries to negotiate with external partners often makes the role of partners more directive than is desired.[18]

The challenge of corruption

Overcoming corruption is central to restoring popular trust in government in war-torn states. Figure 5.4 shows that the control of corruption is substantially weaker than average among post-conflict countries. Post-conflict countries in general carry significant opportunities for rent-seeking behaviour due partly to the wartime economy. The problem is often compounded by the weak capacity for budgetary management and fiduciary oversight. The attention of the international community to issues of corruption in aid-receiving countries has risen significantly over the last 20 years. The main driver of this interest has been concerns about the effectiveness of aid in producing expected results, particularly results that can be shown to their donor country taxpayers and electorates.

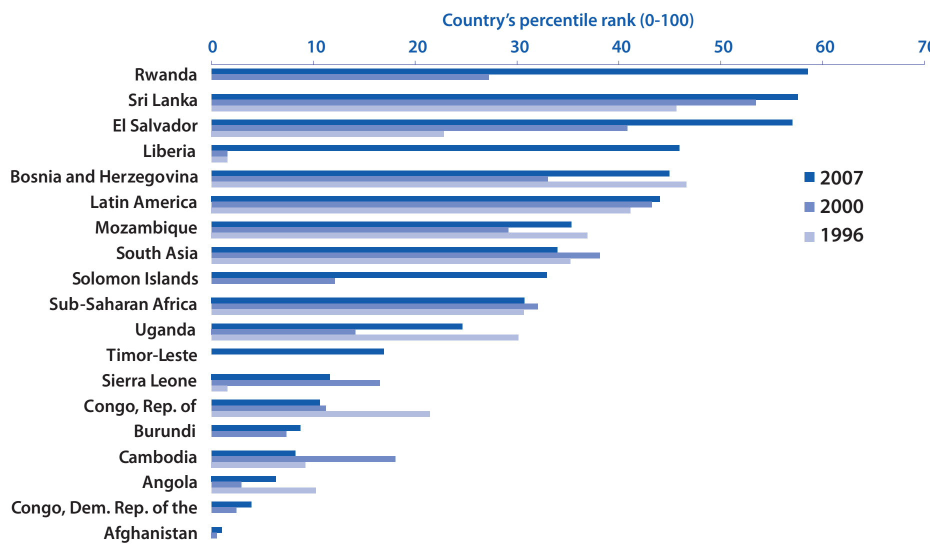
Figure 5.3 **The rule of law for selected post-conflict countries and three regions**



Note: *Rule of Law* measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence.

Source: Kaufmann et al. 2007. The conflict years are based on the PRIO list of armed conflicts 1946–2006, which is available at: http://www.prio.no/CSCW/Datasets/Armed-Conflict/UCDP-PRIO/.

Figure 5.4 **The control of corruption for selected post-conflict countries and three regions**



Note: *Control of corruption* measures the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests.

Source: Kaufman et al., 2007.

In the last few years, however, there has been greater focus on the impact of corruption in the context of security and development. Whether defined narrowly, as the abuse of public office for private gain, or more broadly, as a the subversion of rule of law to reward special interests by state and non-state actors,[19] corruption can have a corrosive effect on political legitimacy and sustained economic recovery. Accumulating research on the subject suggests that real or perceived corruption is a powerful source of popular discontent and sometimes violent regime delegitimation.[20] In addition, corrup-

BOX 5.1 PARTICULAR NEED FOR GOOD GOVERNANCE IN THE RESOURCE-ABUNDANT POST-CONFLICT COUNTRY

Natural resource abundance offers the potential to underwrite economic growth and improvements in socio-economic well-being. Angola, for instance, has financed its economic recovery largely through its natural resource wealth. Angolan GDP is estimated to have increased from US$11 billion to US$45.2 billion within four years of the civil war ending in 2002.[22] Oil generates 40 percent of the GDP and approximately 90 percent of government revenue.[23] Diamonds have been another major revenue source, with government revenue from this source more than tripling, from US$45 million to US$165 million over the same four-year period.[24]

At the same time, however, natural resource abundance could pose significant danger to recovery due to contestation over access. As discussed in Chapter 2, resource-rich countries are at higher risk of experiencing outbreaks of civil war and of encountering greater impediments to achieving both an early resolution of conflict and a peace that holds.[25] In the Democratic Republic of the Congo, many areas rich in precious metals still fall outside the effective ambit of government regulation. In Liberia, ex-combatants occupied the country's largest rubber plantation throughout the transitional period, stalling efforts to revive production and generate badly needed revenue.

Weak institutions doubly handicap resource-rich post-conflict countries. Already beset by the governance pathologies of poor accountability and rent seeking that tend to afflict resource-rich countries, they are also burdened by the wartime destruction of authority, legitimacy and capacity of governing institutions. This double-deficit means that resource-rich post-conflict countries may be even more challenged to reassert control over and manage the natural resource abundance in ways that support peace and economic recovery.

For natural resources to contribute effectively to broad-based and durable post-conflict economic recovery, improvement in resource management transparency is essential.[26] Over the last two decades, the international community has actively promoted such transparency. For instance, the IMF has been encouraging oil-producing countries to make public their monthly or quarterly oil production data.[27] Other donors and civil society groups have also focused on the issue. For example, the Extractive Industries Transparency Initiative (EITI), launched at the 2002 World Summit on Sustainable Development in Johannesburg, aims to strengthen governance by improving transparency and accountability in the sector by advocating a global standard for companies to publish what they pay and for governments to disclose what they receive.[28]

Similarly, the Publish What You Pay coalition of over 300 international NGOs calls for the mandatory disclosure of the payments made by oil, gas and mining companies to all governments. The coalition also calls on resource-rich developing country governments to publish full details on revenues.[29] More operationally, the World Bank and other partners have been working with transitional governments to reform the legal framework governing the extraction, taxation and trade in lucrative natural resources.[30]

tion can impair the authority and effectiveness of the state to manage and oversee national economic development.[21] Post-conflict states with abundant natural resources often find their recovery challenges compounded by this wealth because it is a major source of rent and therefore a major theatre for contestation among the domestic leaders (see Box 5.1).

For most post-conflict countries, however, ODA is the best short-term option for recovery finance. In both cases, transparency and accountability in government expenditure are essential to improving governance. Equally important, a good image makes a country more attractive to both public and private investment and donor support.

While the post-conflict environment throws up new opportunities for corruption, it can also offer new opportunities for reformers within government, the larger population and their external partners to tackle corruption. The challenge is to address the issue without undermining state sovereignty, without destabilizing a fragile peace and without overburdening state capacity or undermining it. In order to reduce corruption, countries need to build the capacity to design and enforce anti-corruption statutes and legislation, establish proper procedures to scrutinize government payments and disbursements, and monitor regularly the movement of resources from disbursement to use.[31] Perhaps most importantly, communities should be actively involved in this monitoring process, as in Uganda's Community-based Monitoring and Evaluation System (CBMES). This grassroots programme initiated by the Uganda Debt Network in 2002 encourages participation of local community members in monitoring implementation of poverty programmes and government expenditures.[32]

5.4 Pathways to effective institutions of governance and economic recovery

The critical differences among countries in post-conflict transition underscore the message that recovery strategies must adapt to local dynamics. Yet the implicit, if not explicit model for functioning states that guides international peacebuilding and recovery efforts today is based on the democratic market models of the West. Some researchers speak of a contradiction between the:

> universal values (predominantly those in the liberal tradition of individual human rights, democratic governance and market-oriented economics) espoused by international organizations and donor governments on the one hand, and the particular social practices, political traditions and cultural expectations of the host society on the other.[33]

This model encompasses a very broad set of objectives, including promoting democratization and inclusiveness, ensuring accountability and responsiveness, and empowering civil society. The model also suggests particular approaches to reforming military and judicial bodies, and to building the policy, fiscal and administrative capacity of the state. This model may be highly desirable in normative terms. But empirical evidence suggests that neither peacebuilding per se nor economic recovery necessarily depends, at least in the short term, on the sort of all-encompassing state-building programmes that guide today's international peacebuilding efforts.[34] In some cases, a maximalist state-building agenda may even unwittingly serve to undermine the creation of effective states and the prospects for economic recovery by overwhelming limited national capacities, inflating popular expectations for palpable peace dividends and unleashing new forms of political contestation before processes of peaceful conflict management can be fully institutionalized.[35] Moreover, some of these requirements may be inconsistent with really important aspects of the post-conflict setting. For example, Western style majoritarian democracy, with its winner-take-all electoral rules, may not easily permit full inclusiveness of minority ethnic groups.

> In post-conflict settings, the 'ideal' model of governance may be less conducive to peace consolidation and sustained recovery than 'second best' institutions and forms of governance that lie outside the Western 'best practice' model.

Historically, the process of modern state formation in the developed world has shown that resilient and prosperous states are those that 'got their institutions right'. The right institutions include those that ensure security of property rights, enforce contracts, enhance voice and accountability, manage the market effectively and provide a social safety net for citizens. It is becoming increasingly obvious, however, from the variety of institutional forms that prevail in the advanced countries that 'getting institutions right' does not depend on any one model. Indeed each of these objectives could be achieved in a number of different ways: in post-conflict settings, the 'ideal' model of governance may be less conducive to peace consolidation and sustained recovery than 'second best' institutions and forms of governance that lie outside the Western 'best practice' model.[36]

Two contrasting paths towards effective institutions of governance

An examination of how war-torn countries have achieved a measure of political stability and established the foundation for development shows that different approaches are feasible. Both have occurred under varied constitutional and institutional settings and forms of governance, including one-party systems (Vietnam), no-party systems (Uganda), transitional democracies (Sierra Leone, El Salvador), *de jure* statelessness (the Somaliland region), as well as some form of direct international administration (Bosnia and Herzegovina, Timor-Leste). We examine in some detail here two alternative pathways towards (re)-building functioning institutions in war-torn societies. First, Uganda's successful political and economic reconstruction after the National Resistance Movement (NRM) took control in 1986 is examined. Then the case of the Somaliland region of Somalia is reviewed. The Somaliland region has managed to establish some degree of security and effective governance over the past 17 years while forming part of a state that is still challenged by conflict.

In both cases, state development was largely locally-driven, based on National Resistance Councils in the case of Uganda, and customary authorities in the case of Somaliland. In Somaliland, recovery was largely financed by diaspora remittances with relatively little external aid or assistance. In Uganda's case, it was accompanied by substantial international aid and policy conditionality. The contrasting experiences illustrate the conclusion that there is no single formula for success in state building.

Uganda

When the NRM under the leadership of Yoweri Museveni took over power in Uganda in 1986, it inherited a ravaged economy and society,[37] the product of recurrent civil war, misgovernance and two decades of gross repression and misrule.

While the major civil war ended when Museveni took power, the new government continued to face substantial insurgency in the North and in the East. By 1991, the country was at relative peace, although significant rebellion from the Lord's Resistance Army has continued to present times. The war had far-reaching consequences. As described by one scholar:

> A once impressive economic and social infrastructure lay devastated by war and lack of maintenance. Farms and industrial enterprises lay abandoned as farmers, workers and managers fled in search of safety. The more experienced and skilled personnel in the civil service, terrorized by successive repressive regimes, had fled to safer pastures. Those who were forced by personal circumstances to stay behind were deeply demoralized by physical insecurity, the collapse of discipline and management systems, and declining real incomes.[38]

It is estimated that between 1980 and 1985 alone, tens of thousands of people were killed and hundreds of thousands (mostly civilians) displaced as a result of the fighting between the then Ugandan government forces and Museveni's National Resistance Army (NRA). This fierce civil war compounded the already severe development reversals of the regime of Idi Amin, with its gross mismanagement of the economy, forced deportation of the largely professional Asian population, and brutal repression of civil liberties. In 1986, Uganda experienced negative economic growth and hyperinflation, and the economy was saddled with a heavy debt overhang and serious balance of payments problems. The country's GDP shrank by 40 per cent between 1971 and 1985[39], and its GDP per capita dropped by close to 30 percent between 1971 and 1991.

Since the early 1990s, as discussed in Chapter 4, Uganda's fortunes have changed dramatically for the better, underpinned initially by prudent macroeconomic stabilization policies, sustained broad-based growth and enhanced governance. Following its victory in the civil war, the NRA succeeded in extending its authority across the country, and in rebuilding the decimated institutions and capacities for governance. Uganda has since enjoyed relative political stability and a strong economic recovery with GDP and GDP per capita growing on average by 7 percent and 3 percent a year, respectively, between 1988 and 1995.[40] As shown in Chapter 4, GDP per capita grew by 50 percent between 1991 and 2007. Inflation was also reduced substantially (particularly after 1993) from 215 percent in 1987 to around 7 percent in 1995. From 1992, following significant improvements in investor confidence and a corresponding reduction in the country's overall risk rating, private investment also started to rebound. This in turn strengthened the ongoing economic recovery. By 1997, the average income of Ugandans had increased by 40 percent in the space of a decade, albeit from a very low base. In 2000, a household survey revealed that the share of the country's population living in poverty had dropped from 56 percent to 35 percent in just eight years.[41]

How did Uganda manage this dramatic turnaround? One part of the answer, discussed in chapter 4 (and indeed the most common explanation), is Uganda's adoption of macroeconomic stabilization policies and fiscal reforms and the generosity of donors in funding them.[42] This aid was conditional upon Uganda's adoption of the standard structural adjustment prescriptions of the day: fiscal discipline, a market-determined exchange rate to boost export, the liberalization of commodity markets, particularly in the coffee sector, the restitution of confiscated Asian properties, and active encouragement of domestic and foreign investment.[43] The extent of Uganda's adherence to donor policy frameworks has led some to conclude that Uganda's recovery was largely, if not wholly, a donor-driven and donor-managed affair: a (successful) case of externally-driven, aid-induced policy reform.[44] But this explanation ignores both the role of Ugandan leadership in determining the parameters of reform as well as the institutional transformation underpinning them. According to Weinstein:

> The ownership of policy reform that was the hallmark of Uganda's experience resulted from hard-driving Ugandan technocrats who pushed the World Bank and IMF to transfer resources and autonomy to policymakers in Kampala rather than Washington. Aid conditions helped the Ugandan government implement difficult reforms in the early stages, but the good institutions that supported a consensus in favour of policy reform were home grown.[45]

> In Uganda leadership was key in determining the parameters of reform and the institutional transformation underpinning them.

Under Museveni's leadership, peacebuilding and economic recovery went hand-in-hand with a process of state reconstitution that built upon the organizational coherence and capacities of the National

Resistance Councils. These were quasi-administrative, grassroots bodies that the NRA had developed in the course of the civil war. In 1986, these became the basis upon which elected Local Councils established vehicles of participation and governance. The Councils provided a means of community organization, local consultation, dispute resolution and local service delivery. While abjuring multi-party democratic competition, the Museveni leadership developed a self-styled 'no-party' system that was inclusive, incorporating elements of political and former military rivals into leading executive positions and the army, thereby consolidating a degree of political legitimacy that extended beyond NRM adherents. As the government initiated economic recovery, it pursued a dual strategy of offering unconditional amnesty to those rebels without a criminal record, and intensifying military operations. Meanwhile, members of some of the former opposing fighting forces were integrated into the national army.

Uganda's recovery involved the articulation of a clear and robust vision, as well as the design and construction of institutions of government that generate economic growth and empower the citizenry. Perhaps most importantly, the origins of these institutions lay in the guerrilla war itself as Museveni designed the Resistance Council system to finance and support his mobile army. He institutionalized deliberate processes to generate political support, and constructed a broad-based movement capable of drawing in members of other ethnic groups, enabling him to consolidate power nationwide.

The Somaliland region

In contrast to Uganda, recovery in the Somaliland region has been largely financed through remittances and diaspora trade and commercial linkages over the last 17 years. Somaliland has achieved remarkable recovery even in the absence of significant development assistance.[46] Like the rest of Somalia, the Somaliland region still ranks low in terms of human development.[47] However, it has shown steady improvement in basic health provision, resulting in greater life expectancy and lower infant and maternal mortality rates. Primary and secondary school enrolment rates have likewise shown a steady increase, although they still fall short of the country's developmental needs. Notably, primary school enrolment rate, at only 37 percent in 2000, is comparable with neighbouring countries such as Djibouti (32 percent) and Ethiopia (35 percent).[48]

Poverty levels show a similar pattern. The populations of Somaliland's urban centres enjoy average per capita incomes that compare favourably with regional averages and are well ahead of many post-conflict states in sub-Saharan Africa.[49] Improvements in physical infrastructure, especially sanitation and telecommunications, have been driven by a resurgent private sector, and have led to significantly improved access even among poorer segments of the population. While there are continuing severe deficiencies in access to clean water and road transportation, Somaliland has seen improvements in the delivery of basic public goods.[50]

Somaliland's economic recovery has gone hand in hand with its successful transformation to a relatively stable region. As in other war-torn countries, it encountered setbacks in the early stages during its efforts to disarm and demobilize combatant groups, and in 1994–95 it witnessed renewed inter-clan violence. By the late 1990s, however, the incorporation of erstwhile militias into a 'national' armed force was more or less complete, as was the return and resettlement of some half million IDPs and refugees.[51]

Two factors have been crucial to Somaliland's relative recovery success in the absence of both third-party security guarantees and significant development aid. The first is that, like the rest of Somalia, it has long relied on regional trading networks and local customary practices for economic survival. Informal clan-based credit systems traditionally provide the means to extend credit, transact commerce, adjudicate disputes and protect assets in the key sector of the livestock trade, upon which Somaliland's economy still depends. During the years of civil war the region became more heavily reliant on these informal practices, not only for economic survival but also for the furtherance of its political objectives.[52]

Cross-boundary networks have provided the chief source of reconstruction income to Somaliland in the form of remittances.[53] The volume of remittances to Somalia as a whole is difficult to quantify, as they flow largely through informal mechanisms. Still, by several authoritative accounts, Somaliland's annual remittance receipts since 1991 have far exceeded other financial inflows, whether development assistance, humanitarian relief or private investment.[54] As one World Bank study details, while these remittances generally support household-level consumption needs, they have also financed small business development.[55] The channelling of remittances largely through informal money transfer mechanisms has broadened the scope for these institutions to take on greater roles as commercial lenders and to act as principal agents of finance for local investment and entrepreneurship.[56]

> Somaliland's relative recovery success is due to its historical reliance on regional trading networks and local customary practices for economic survival, and a its reliance on tradition and customary rules to rebuild the basic institutions of political authority and governance.

In general, private investors, finding innovative ways to compensate for the lack of sovereign risk insurance, have driven Somaliland's economic recovery. They have taken advantage of legal and regulatory mechanisms in external jurisdictions to conduct business in Somaliland. For example, several private airlines operate in the region but are based in foreign jurisdictions so to satisfy global safety standards, to assure access to credit risk insurance and to secure their commercial base. An official of one such firm based in Djibouti notes that such an arrangement enables underwriters to write policies to insure the company's aircraft. This location also enables airlines to manage inter-airline agreements with foreign carriers, gain access to global reservation systems and organize electronic mechanisms to collect fares, all of which require mutually agreeable venues for resolving possible commercial problems.[57]

A second factor in Somaliland's recovery has been its reliance on customary rules and institutions to rebuild basic institutions of political authority and governance. Historically, British colonial policy of 'indirect rule' meant that very little was done to alter traditional laws and institutions unless a specific aspect conflicted with British law. Although the policy was guided more by the financial cost of direct administration than respect for local culture, it helped to maintain customary laws and traditional institutions. The resilience of these indigenous systems provided the basis for the restoration of political authority and governance in Somaliland when the union government collapsed. Tribal leaders got together and formed a council of elders. After months of deliberation and consultation, Somali clan representatives created an elected legislature in 1993. The clan elders' council became the basis of the upper house of the legislature, and was complemented by the creation of a lower house, where seats are distributed by clan. This arrangement has been described by one scholar as "a hybrid of Western political institutions and a Somali system of clan representation".[58] It provided the basis from which Somalilanders were able to deliberate constitutional reform, re-establish pluralistic politics and create a region-wide system of representation and administration.[59]

A hairdresser cuts hair in a makeshift barbershop that he has set up in the abandoned tax department of the National Bank of Liberia, Monrovia, Liberia, June 2005 (Tim A. Hetherington/Panos Pictures)

A degree of peace and stability has been essential to the efforts to build an effective, if still limited public administration in the Somaliland region. To be sure, its experience has not been without setbacks and problems, such as an embattled media and, beyond the clan system, a weak civil society. However, its relative success shows that war-torn countries or regions do have some capacity for 'autonomous recovery'[60] and may even be capable of rebuilding functioning—if still imperfect—institutions of governance in the absence of substantial external state-building assistance.[61]

5.5 Reconstituting state capacity

Reforming the civil service

Strengthening the machinery of government is perhaps the most important priority for improving state performance in post-conflict economies. The obvious starting point for the post-conflict country seeking to reform its public sector is retrenchment and weeding out of ghost workers, i.e. those workers who are on payroll but do not actually perform any function and do not show up in the workplace. However, the post-conflict setting of the exercise means that the government must be concerned as much with enhancing its effectiveness as with the larger question of ensuring that such reforms support peace consolidation and economic recovery. For instance, against the need to reduce the size of the bureaucracy to raise efficiency, the state must weigh considerations relevant to avoiding a high risk of conflict recurrence. Dismissing unnecessary civil servants will not only add to the general employment problem but also lead to disgruntlement among an articulate section of the population. Moreover, it is important that all major groups are represented in the bureaucracy. In the immediate post-conflict period, therefore, it may be politically desirable to incorporate some of those who have worked for rebel administrations—which might require expansion rather than retrenchment. As discussed in the case of Uganda, this grossly inflated the size of the army (and the defence budget), but was critical to sustaining peace.[62] The absorption of combatants into the army was eventually followed by a successful World Bank-supported DDR programme.[63] In sharp contrast, in Iraq after the 2003 invasion, there were mass dismissals of military personnel which seems to have fuelled the violent opposition.[64]

The overall record of post-conflict countries with regard to strengthening of administrative capacity over the last two decades has not been spectacular. While there has been some success in keeping the wage bill under control and strengthening the basic 'plumbing' of public administration through eliminating ghost workers, creating an accurate database of employees linked to the payroll and setting up a system of basic controls, the longer term state capacity building has been much more challenging. Post-conflict civil service reform must be particularly concerned with improving the training and skills of existing staff, especially where the conflict has lasted for a long time. It may also need to provide special incentives to attract back educated personnel from abroad. Reforms in public expenditure management will help monitoring government spending and rationalizing spending according to government goals.

Right after cessation of hostilities, while new national leaderships are being constituted (and still being contested), donors often try to compensate for weak national capacities in several ways. One is to have NGOs provide direct service delivery, for example, having NGOs implement the health and education programmes for returning populations and IDPs. As noted in Chapter 3, NGOs were widely used in Liberia to implement aspects of the DDR programme. For external partners seeking to act quickly and effectively, there is an obvious attraction in this model. However this approach runs the risk of giving rise to an enduring parallel structure which substitutes for the state in the delivery of services or management of resources. Where this parallel structure endures, it becomes fundamentally subversive to government efforts to rehabilitate and expand the capacities of state agencies to design and implement public policy. Indeed, excessive dependence on these entities tends to create enclaves of economic activity and potentially strong islands of excellence without improving local human or institutional capacity. In the worst-case scenario, it can supplant state functions and ultimately hurt the legitimacy and sovereignty of the state.

Our indigenous drivers approach would suggest that reconstituting the capacity of the state has to be a first order priority, even as various domestic influential groups contest the politics and the peace consolidation process. As described in Chapter 2, a dire shortage of skilled personnel, particularly civil servants, is a typical legacy of conflict. Unfortunately, reinstating such policy leadership capacity has not usually been among the leading priorities in external support for recovery. For instance, despite the dire capacity needs, civil service training in Afghanistan did not begin in earnest until 2005.[65] Similarly, it has taken the Liberian government over two years to mobi-

BOX 5.2 LIBERIA: RE-ENERGIZING THE PUBLIC SERVICE

After decades of neglect and decline due first to highly intrusive political leadership and then to almost 25 years of conflict, Liberia's civil service had suffered a severe decline in effectiveness and a massive loss of qualified staff. By the start of President Johnson Sirleaf's administration in January 2006, the civil service was unable to lead and manage reforms and deliver essential services to the public. A cadre of high performing public servants, properly trained, well motivated and adequately compensated, needed to be put in place as quickly as possible. The government considered this objective infeasible within the confines of the current civil service structure. Increasing salaries and allowances across the board, though perhaps justified to compensate for the erosion of purchasing power, was not considered a feasible solution to the underlying problem.

The government sought to create a group of public service leaders who would take ownership of the reform process and move it forward. It insisted that Liberians must become the drivers of change. To this end, the government initiated the Senior Executive Service (SES) programme, identifying 100 'high leverage' positions in the civil service. Each of these posts typically involves the management of a significant level of public resources and effective performance of its responsibilities usually has a significant impact on the well-being of the country as a whole. The core of the programme is in ministries that have either financial or economic policy oversight functions, such as finance, budget, planning and economic affairs, or major service delivery responsibilities such as public works, health and education. Recruitment to these positions is highly competitive, with incentives set generously enough to entice expatriate Liberians to return. Beyond salaries substantially higher than the current scales, the programmes' incentives include monetizing all allowances and matching the incentives provided by a market-based comparator group. The programme also ensures that the senior executives have appropriate authority and autonomy as well as continuous professional development. The government expects to be able to take full responsibility for the SES, eventually folding it into the rest of the civil service reform process. At the beginning, however, it expects that its external partners will bear the US$9.7 million cost of the programme for the first three years. Those who lose their jobs as a result of the new scheme will be given significant support. The programme will offer them training and counselling, job search support and exit pay for staff whose positions have changed or disappeared (although in light of Liberia's conflict situation, termination will be considered a last resort).

Source: Government of Liberia, 2007; UNDP Liberia, 2007b.

lize the support it needed to initiate its Senior Executive Service (SES) programme which is expected to provide the dynamic leadership for Liberia's new public service (see Box 5.2).

The role of aid

As discussed in Chapter 4, aid is a major pillar of recovery for most post-conflict countries. It gives national authorities additional resources and discretion to restore policy-making capacities, and crucial political space to work on building an internal consensus on overall recovery strategy. The need for early and more predictable disbursements of aid was stressed. However, foreign assistance without a corresponding focus on rebuilding the skills of local counterparts can undermine the rebuilding of institutions in post-conflict settings.

An often-repeated example is Afghanistan, where it is claimed that external assistance undermined capacity building in the government bureaucracy. This is because civil servants receive an average pay of US$50 per month while Afghan nationals working for NGOs and the UN and bilateral aid agencies earn more than US$1,000 per month. It is said that this results in a brain drain from the managerial tier of the government to menial positions in the aid system.[66] Another example is Cambodia, where expenditure on foreign technical assistance by donors substantially exceeds the total civil service bill, and salaries to international agencies and their contractors dwarf local salaries.[67] Relatively expensive expatriates may be needed to give the post-conflict country the skills it needs, but it is critical that their number be limited to what is absolutely essential. There is some evidence, however, that not enough effort is put into finding indigenous capacities. A participant at a recent UN Security Council discussion on supporting post-conflict countries observed that in Afghanistan there were

> countless Afghans with skills that the UN could have used. If we had made it a priority to train Afghans at the outset of the mission, we could have hired many of them to serve as clerks, mechanics and in other capacities. Instead, we brought in international staff to do those jobs. Even if we couldn't find the expertise we needed in the country, there was a 3 million-strong Afghan diaspora—most of them across the border in Pakistan and Iran. If we had made an effort to visit these communities we might have found many capable Afghans to work with us.[68]

The possible crowding out effect, where competent local staff are recruited by the aid agencies at salaries the government cannot match, poses a different kind of challenge. The real question is how quickly such international presence can be reduced so that the recipient government can obtain the maximum benefit from external assistance. Aid resources should be used to build state capacities as quickly as possible, including the capacity to manage the recovery and development processes. In post-conflict settings, particularly in the early days of recovery, there is often a large peacekeeping operation and other international presence. As a result, only a fraction of total external resources dedicated to peace consolidation passes through the government budget. The bulk of the resources is often handled directly by external partners for necessary operations (such as security and stabilization) that may not build state capacity or contribute directly to national development. In Afghanistan for example, from 2002 to 2004, 66 percent of resources being spent in the country was controlled by UN agencies, bilateral aid agencies, international NGOs and private contractors in the position of direct implementers and decision makers.[69]

> Consider pairing the highly skilled expatriate with an indigene inside the government bureaucracy rather than have a parallel organisation of expatriates doing what is essentially government business.

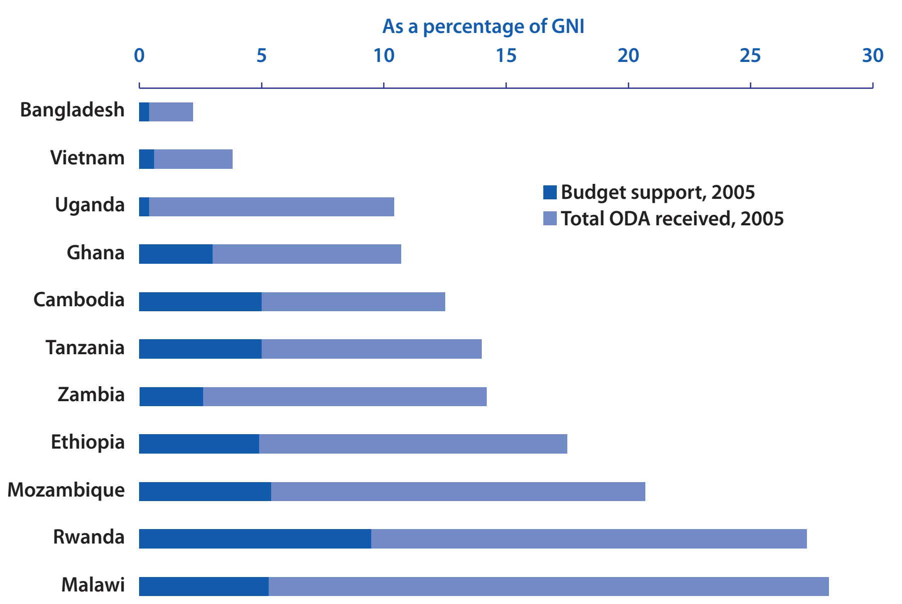
The real challenge here for recovery is that the resources meant for post-conflict reconstruction and development should be to the maximum extent possible controlled by the government. The dilemma is that in an Afghan-type situation, there is an absolute shortage of high-level skills due to years of conflict. It is such constraints that the large number of international personnel is supposed to address. However, emergency interventions offered by donors to kick-start recovery, while necessary, have often created a proliferation of technical assistance, some at unsustainably high costs. In a bid to get the job done parallel institutional arrangements for implementation are often created at the expense of developing government capacity.[70] The larger the number of expatriates doing development work, the less room there is for local expertise to learn by doing. The long-term solution is to build local capacity as soon as possible. In the interim, however, and as part of the process of building the indigenous capacity, one solution may be to have two people on the same job for a short period. The idea would be to pair a highly skilled expatriate with an indigene inside the government bureaucracy rather than have a parallel organisation of expatriates doing what is essentially government business. There could still be a pay disparity, but the expatriate's exit would come much sooner.

Another challenge, and one that is widely recognized, is the unacceptably high administrative costs as government agencies cope with multiple donors. The proliferation and duplication of aid agencies in post-conflict countries complicates the government's job. Over the years, there has been a growing overlap of mandates among the various aid agencies, and a blurring of their traditional roles. In addition to the multilateral agencies, bilateral agencies and an increasing number of NGOs are also active independently. Coordinating them and staying on top of their agenda can be quite a challenge for the typically weak post-conflict government. This is one of the most important reasons for recovery assistance: to build as quickly as possible the capacity of the local leadership to 'own' the country's recovery process.

In recent years, particularly as a consequence of the Paris Declaration on Aid Effectiveness,[71] growing attention has being paid to the provision of direct budget support, as mentioned in Chapter 4. Direct budget support, provided early and with minimum control, can reinforce economic recovery and peace consolidation. Indeed some analysts have noted that:

> The early shift to programme aid—combined with large increases in technical cooperation funding—enabled Sierra Leone and Rwanda to improve macro-economic stability, to rebuild institutions, to plan and prioritise public expenditure, and to meet key recurrent costs to support basic services. Traditional 'post-emergency' instruments may arguably not have been able to meet these broader objectives. In Sierra Leone, DFID provision of budget support during the conflict arguably contributed to economic stability and post-conflict recovery.[72]

Figure 5.5 **Budget support for selected countries, as a proportion of ODA**



Source: UK National Audit Office, 2008, pp 11 and 77.

In some post-conflict countries, international donors have been leaders in providing budget support, as in the cases of Rwanda and Sierra Leone and Uganda.[73] However, the idea of DBS has not yet been fully embraced, particularly in fragile settings. Figure 5.5 shows the share of DBS for a select group of developing countries, including a number of post-conflict countries. At best, as in Rwanda, Mozambique and Uganda (and in non-conflict Tanzania), DBS is only just about a third of total ODA. Admittedly, the typical post-conflict setting is particularly risky, in part because of the weak capacity of the state. Providing budget support in such circumstances may be seen as an act of optimism. But it is precisely such "optimism of the will"[74] that is essential to help the post-conflict country reconstitute the state and rebuild its capacity to own and lead the recovery process.

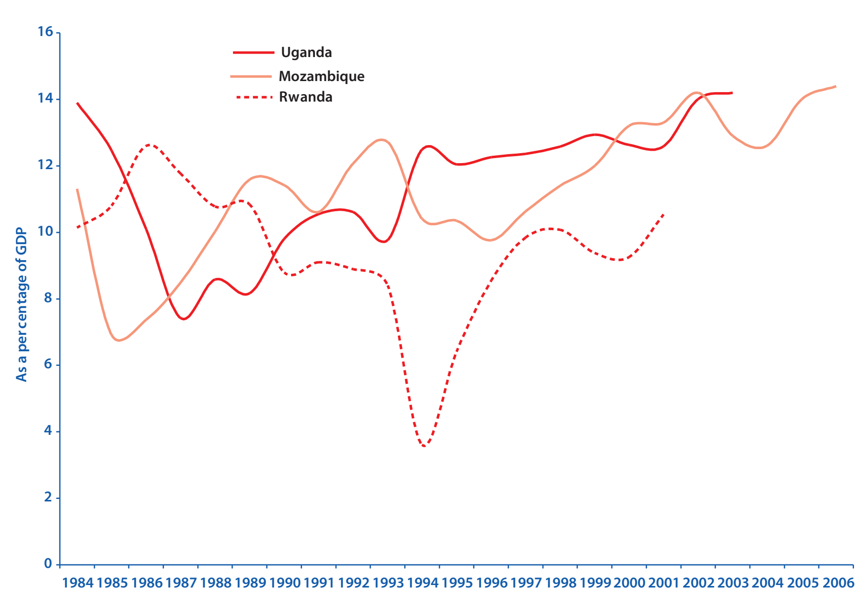
Rebuilding public finance capability

Many post-conflict states rely heavily on external aid, at least initially, for the resources they require for the recovery of the economy and the provision of public services. Ultimately, however, sustainable recovery requires that post-conflict governments develop the institutional, administrative and fiscal means to underwrite directly the provision of these services. This depends, in turn, on the ability of the state to mobilize, allocate and spend domestic revenues. The payment of taxes by the citizenry is an essential aspect of the social contract and the ties between citizen and state.[75] Hence, the size of public revenue relative to national income is a good indicator of the relative strength or weakness of the state. The objectives of revenue mobilization in post-conflict settings, as in all settings, are to pay civil servant wages and to underwrite public services, as well as to finance capital expenditures and reduce aid dependence. Additionally, the capacity to mobilize revenue is an essential characteristic of an effective tax administration.

Developing countries in general have a substantially lower tax-to-GDP ratio than developed countries. For post-conflict countries, the war-induced disruption of economic life means that they typically begin their recovery with an even lower tax base. In Afghanistan, for example, the level of revenue (excluding grants) in relation to GDP was 4.5 percent in 2004.[76] Figure 5.6 shows the trend in the tax/GDP ratio for Mozambique, Rwanda and Uganda from 1984. In all cases the ratio at its best was only around 15 percent.

Post-conflict governments are often constrained by a lack of administrative capacity to identify and tax sources of revenue. Effective tax collection requires fairly elaborate administrative machinery, including technical experts, administrators and judicial support mechanisms. Where these capacities are strong, states have several options for revenue mobilization, including taxes on income, property and sales. Where they are not, it could mean, at best, unrealized revenue potential; at worst, it leaves revenue sources vulnerable to capture by non-state actors. For example, in the Democratic Republic of the Congo, it has been esti-

Figure 5.6 **Tax revenues as a share of GDP for Uganda, Mozambique and Rwanda**



Source: World Bank, 2003b; World Bank, 2005g; IMF, 2007a.

The Transitional National Government (TNG) collects taxes from commercial vehicles, near Mogadishu, Somalia, 2001
(Sven Torfinn/Panos Pictures)

mated that between 60 and 80 percent of customs revenues are not collected by the central government, but instead are used to finance militia operations through taxes taken at border crossings.[77]

As discussed in Chapter 4, post-conflict governments can seek to expand the size of the revenue base through policies that promote investment, trade and economic growth, and by rebuilding the capacity to tax existing incomes and assets. Both avenues are necessary for long-term sustainable economic recovery. While the first is a challenge for macroeconomic policy making, the second is a challenge of institution and capacity building. Without an effective capacity to translate gains from economic growth into gains for public finance, state coffers are unlikely to benefit from post-conflict economic growth when it does occur.

However, as noted in Chapter 4, with their limited administrative capacity in the face of urgent expenditure needs, post-conflict governments often have to depend on a very narrow range of taxes. They rely mainly on indirect taxes such as import duties and other trade taxes for a large percentage of their revenue, since these taxes are relatively easy to collect at the border and do not require complex administrative machinery. For example, almost all revenues in Kosovo stem from imports, which are subject to a uniform tariff, sales taxes and excises, while much of the domestic economy remains virtually untaxed.[78] As is well known, indirect taxes can be regressive, but they can be designed to exempt the goods primarily consumed by the poor, notably food, and to tax high-income goods more heavily.

Taxes that have been recommended by the IMF for a range of post-conflict situations include withholding taxes on wages (Afghanistan, Bosnia and Herzegovina and Timor-Leste) and a presumptive tax on small business (Timor-Leste). Taxation of large urban landholdings is another revenue-raising possibility that has been suggested.[79] Another is to concentrate capacities and resources on enforcing compliance on the small pool of the largest taxpayers.[80]

The World Bank cautions, however, that an overemphasis on raising taxation in the immediate aftermath of conflict could be seriously counterproductive. In an evaluation of its work in support of post-conflict reconstruction in Uganda, one of the lessons learned was that "a low level of taxation over the recovery period in a post-conflict country such as Uganda is critical. Even where aid is set to decrease in the medium term, the fastest route to self-reliance is unlikely to involve rapid increases in the tax burden in the short term".[81]

There is indeed some merit in not trying to raise domestic taxes too quickly, especially when the social contract remains fragile. It has been suggested, however, that reducing tax exemptions on post-war aid flows could help to prime the pump for domestic revenue-collection capacity. In the early post-war years, aid often is the single biggest component of the formal-sector economy. In the spirit of rebuilding the capacity of the state as quickly as possible, there is some potential avenue toward this end in taxing imports brought in under aid agreements. One reservation against such a tax is that it is essentially equivalent to budget support. This is true, but it is precisely the point that the fiscal autonomy such taxes give to national authorities is the appropriate way to build its fiscal capacity.

A related suggestion has been made that employees of international organizations and their contractors could be taxed too.[82] This would require weighing the additional costs of setting up the system against its potential benefits. The most obvious direct costs would relate to negotiating double taxation agreements. But there would be a larger question of parity—ensuring that international civil servants employed in post-conflict settings do not carry a heavier tax burden than those in non-conflict settings.

Rebuilding fiscal institutions in the wake of conflict involves creating the appropriate legal and regulatory framework, establishing a central fiscal authority for mobilizing revenues and for coordinating external assistance, and installing mechanisms for deciding on and implementing revenue and expenditure policies.[83] The relative sequencing of the three measures will depend on the particular country conditions. In some countries all three elements may already be in place, as in Sri Lanka. And, in general, these steps were followed in such new states as Bosnia and Herzegovina and Timor-Leste.[84]

Given the heavy dependence of post-conflict states on customs duties, a relatively low-cost starting point for increasing revenue is to strengthen customs management and oversight at major ports and border crossings to deter extra-legal capture by non-state actors. This has the double benefit of redirecting revenues toward legitimate authorities while undermining the financial strength of potential peace spoilers. Where national customs enforcement capacities are weak, support may come initially from international peacekeeping forces. In Afghanistan and Liberia, for example, peacekeeping forces were deployed to monitor key border crossings.[85]

National capacity to control the illicit trade in lucrative commodities such as diamonds and timber has also been aided by UN sanctions and global certification regimes. In the case of Sierra Leone, for example, the combination of UN embargoes, national certification and the global certification system provided by the Kimberley Process[86] led to an increase in official diamond exports. Correspondingly, revenues rose from US$10 million in 2000 to US$130 million in 2004.[87] Targeted World Bank assistance to customs reform in the Democratic Republic of the Congo, which streamlined and reduced bulky customs payments, helped to increase customs revenues nearly threefold between 2002 and 2005.[88] In Mozambique, the IMF contracted a private customs management agency, Crown Agents, to build, operate and transfer the facility, which resulted in significant increases in customs revenue.

One instrument to mobilize revenues where fiscal governance and administration are weak is the semi-autonomous revenue authority (SRA). SRAs have been established with the aim of enhancing revenue collection, improving tax administration and reducing opportunities for 'leakage', whether through administrative inefficiencies or political interference. SRAs are specialized tax units, independent of central ministries in terms of both governance and financing. They are sometimes seen as a more efficient alternative to regular taxation procedures through established government departments, particularly in cases where such ministries are subject to political influence and other rigidities. Freed from established public sector constraints on wages and promotion, SRAs have greater flexibility in hiring and firing based on merit and other performance criteria. Their financing is typically based in part on a percentage of revenues collected, rather than fixed ministerial budgets, thereby strengthening incentives for more efficient revenue collection. They are accountable to governing boards, the composition of which is typically designed to insulate their operations from political influence. While not unique to post-conflict countries, they have been adopted in a number of post-war countries, including Guatemala, Mozambique, Rwanda and Uganda.

> Sustainable post-conflict economic recovery requires an environment that assures citizen security, supports inclusive development, provides an adequate infrastructure, protects property and investment from predation, ensures predictable and fair taxes and incentives, and reduces the costs of doing business.

International experience suggests that an institutionally separate and self-financed revenue authority with operational distance from the Ministry of Finance could help increase tax revenues in low-income and post-conflict countries.[89] In Ghana, a semi-independent authority established in 1985 successfully contributed to raising tax revenue as a proportion of GDP from 7 percent in 1984 to 16 percent in 1996.[90] In Uganda, tax revenues as a percentage of GDP increased from 8 percent in 1991, when the Ugandan Revenue Authority was established, to over 12 percent by 2000 (Figure 5.6). But evidence also shows that SRAs are no panacea. In many cases, improved revenue performance has been short-lived. In the case of Rwanda, for example, there was initial progress but then taxes dipped. Some have argued also that SRAs may be victims of their own success: the more effective they are in mobilizing revenue, the more attractive they become to political interference.[91] This suggests that the sustainability of these institutions depends very much on the extent of commitment and self-restraint of government leaders.[92] Evidence further shows that while SRAs may enable new and more effective management and oversight mechanisms, these benefits do not necessarily flow back to established ministries. In sum, while SRAs can offer much-needed revenue enhancement in the short-term, they are a stop-gap mechanism at best and no substitute for the more thorough public sector reform that sustainable revenue mobilization requires.[93]

Improving expenditure disbursement and allocation

The other side of public fiscal management lies in the government's capacity to plan and implement public expenditures. For the post-conflict state, it is particularly important to view public expenditure priorities through the lens of conflict risk minimization. Expenditure policy must strive to be inclusive in basic welfare expenditure and in providing health, education and public infrastructure. Indeed, as noted above, a post-conflict government's ability to provide basic services is often critical to rebuilding popular legitimacy and reviving a viable social contract. To help support peace consolidation, public expenditures must be fairly distributed, and must contribute to reducing horizontal inequalities and enhancing the well-being of the poorer segments of the population. Evidence from some post-conflict experiences suggests that this does not always occur. A study of the distributional incidence of post-war public expenditure in Guatemala, for example, finds that much of the public expenditure was not fairly distributed.[94]

Post-war trends show a persistence of both vertical inequalities and horizontal inequalities (between indigenous and non-indigenous populations) in Guatemala.[95] The budget allocations to human development are highly skewed, with expenditure on both secondary and tertiary education as well as health expenditure for hospitals being regressive. In Mozambique, both aid and government expenditure have generally tended to be highly concentrated in the relatively privileged southern part of the country.[96] In a trend paralleled in a number of post-conflict countries, public expenditure, instead of redressing disparities in private expenditure, often mirrors them.

5.6 Conclusions and policy implications

The most conducive environment for sustainable post-conflict economic recovery is one that assures citizens of their security, supports inclusively distributed development, provides an adequate infrastructure, protects property and investment from theft and predation, ensures predictable and fair taxes and incentives to all economic agents, and reduces the costs of doing business. In the short term, substitute external actors can help provide some of these enabling conditions in the absence of effective states. In many cases, initial security and stabilization have been achieved backed by international peacekeepers. Meanwhile, a range of non-state actors, including NGOs, the foreign private sector, traditional authorities and even former armed groups, have undertaken the reconstruction of basic infrastructure and the provision of basic social services, often with the financial support of the international donor community.[97]

In the longer term however, there can be no substitute for the role of the state in post-conflict recovery. The sustainability of economic recovery and peace depends on the restoration of a legitimate, effective and accountable state. Post-conflict countries differ substantially regarding the strength and capacities of the existing state institutions as well as the institutional challenges facing them. Policies to address these institutional challenges must recognize this diversity. They must work with the political, institutional and resource endowments that are present on the ground. Post-conflict societies are endowed, and survive conflict with, informal institutions and forms of governance that may be more viable and legitimate than imported models in bringing about peace, stability and development. So-called 'first best' models of state building derived from the West may be less appropriate to the achievement of stability and sustainable development than institutions grounded in the real-world conditions of post-conflict societies.

State legitimacy in post-conflict states clearly goes beyond transitional elections. Its real substance derives from installing representative institutions, which foster inclusive politics and mitigate the risk of conflict recurrence through paying attention to continuing socioeconomic and political inequalities among groups. The ultimate measure of an authoritative, legitimate and effective state is one that has established a 'social contract', the reciprocity between state provision of security, justice and economic opportunities, and citizen acceptance of the authority of the state. Key institutional challenges that need to be addressed in order to establish such a state are, among others, the promotion of security and the rule of law, the control of corruption and rent seeking, the establishment of an effective civil service with respectable fiscal institutions and revenue mobilization capacity.

International support is often crucial in the early stages of economic recovery and post-conflict institution building. Transparency and accountability are thus essential to attract such support. At the same time several potentially perverse effects of international aid need to be urgently rectified.Crucially, a serious problem in post-conflict settings is the ironic situation where the abundance of aid undermines government efforts to rehabilitate and expand state capacities. A substantial portion of overall aid resources is used to maintain the presence of the international community. But that presence is clearly not a long-term option. Sustainable economic recovery requires that external programmes of support devote significantly more resources than currently to rebuilding local capacity from the very beginning. This may raise the cost of recovery if, for instance, a local counterpart is maintained for each key public management position. But even in such cases, the short-term increase in the cost of recovery is more than compensated in the long term. This is the most effective way to nurture indigenous drivers.

Chapter 5 notes

[1] ICG, 2004; Reno, 2003.

[2] The 2005 *Principles of Good International Engagement in Fragile States,* adopted by major bilateral and multilateral donors, including the OECD, the UN and the World Bank, emphasize focusing on "state-building as the central objective," of international engagement in fragile states. OECD, 2005a.

[3] Paris and Sisk, 2007.; Fukuyama, 2004.

[4] For a discussion of functioning states, see Brinkerhoff, 2005.

[5] Or deliberately destroyed, as indeed was the case in Timor-Leste, where retreating Indonesian forces undertook 'Operation Clean Sweep'. Chopra, 2002.

[6] Carnahan et al., 2006.; Flores and Nooruddin, 2007.

[7] CGD,2006.

[8] Reno, 2003; Cliffe and Manning, 2008.

[9] Fukuyama, 2004.

[10] Addison, and Murshed, 2001.

[11] Seldadyo et al., 2007; World Bank, 2006g.

[12] Kaufman et al., 1999.

[13] Kaufmann et al., 2008b.

[14] Definitions are taken from Kaufmann et al., 2008a.

[15] UNSC, 2004.

[16] Carlson, 2006.

[17] Sannerholm, 2007, pp. 65–94.

[18] For a discussion of GEMAP in Liberia, see Ohiorhenuan, 2007.

[19] O'Donnell, 2008.

[20] See among others: Mbaku, 2007; Smith, 2006; Mauro, 1998.

[21] Abed and Gupta, 2003.

[22] Figures extracted from the World Bank's World Development Indicators Database. For more information see World Bank, 2007a.

[23] Ng and Le Billon, 2007.

[24] Partnership Africa Canada, 2007.

[25] Palley, 2003.

[26] IMF, 2005.

[27] IMF, 2005.

[28] For more information on the Extractive Industries Transparency Initiative, see EITI, 2005.

[29] For more information on the 'Publish What You Pay' coalition see Publish What You Pay, 2005.

[30] For example, the World Bank played a seminal role in helping the Democratic Republic of the Congo transitional government in drafting a new mining code to provide a more coherent and transparent framework for mineral extraction. While the implementation of this code and related mining sector projects have been fraught with challenges and the Bank has received intense criticism for its role, it continues to support restructuring of the mining sector to attract greater private sector investment. See World Bank, 2004. For more information about some of the criticism levied against the World Bank, see BIC, 2008.

[31] Dehn et al., 2003.

[32] Robinson, 2006. For more information about the pilot project for Community Based Monitoring and Evaluation System (CBMES), see UDN, 2002.

[33] Paris and Sisk, 2007, p. 4.

[34] Grindle, 2007; Weinstein, 2005.

[35] Paris, 2004.

[36] For a discussion of so-called 'second best' institutions, see Rodrik, 2008; Fukuyama, 2004.

[37] Colletta et al., 1996.

[38] Lateef, 1991, pp. 20-21.

[39] Collier and Reinikka, 2001.

[40] Data drawn from World Bank, 2007a.

[41] Mallaby, 2004, quoted in Weinstein, 2005.

[42] Kiiza et al. 2005.

[43] Brett, 2006; Weinstein, 2005.

[44] Himbara and Sultan, 1995.

[45] Weinstein, 2005, p. 16.

[46] Somaliland has been the recipient of humanitarian aid, especially in the areas of health and food security. Particularly since 2001, a modest amount of overseas development assistance for governance and capacity building, primarily from the UK, has been channeled through the UNDP and NGOs. In 2006, a reported 5 million of the total 15.5 million £s of UK development assistance was delivered to Somaliland in this way. In the absence of sovereign recognition, however, Somaliland remains unable to access direct budgetary support from multilateral or bilateral donors. See: UK Foreign and Commonwealth Office, 2006 ; Reno, 2003; Menkhaus, 2004.

[47] Somalia ranks among the lowest countries in the world according to select human development statistics published by the Human Development Report Office. See UNDP, 2008a.

[48] UNDP, 2001.as cited in Leeson, 2007, which finds contemporary Somaliland better off on 16 of 18 basic welfare indicators than prior to the conflict of 1988–1991.

[49] UN and World Bank, 2007.

[50] Somalia's post-conflict budget has hovered between 20-30 million per annum. Menkhaus, 2007.

[51] Weinstein, 2005.

[52] Reno, 2003.

[53] Reno, 2003; Weinstein, 2005; Menkhaus, 2004.

[54] According to Reno, "Somaliland's Disapora represents a larger percentage of total population and contributes more to societal income than any other major region in the Somalia space," 2003, p. 5; See also, Ahmed, 2000.

[55] Ahmed, 2000.

[56] Maimbo et al., 2006.

[57] Reno, 2003.

[58] Weinstein, 2005, p.23.

[59] Menkhaus, 2004.

[60] Jeremy Weinstein defines 'autonomous recovery' as when "states achieve a lasting peace, a systematic reduction in violence, and post-war political and economic development in the absence of international intervention." Weinstein, 2005, p. 5.

[61] "Somaliland serves as a reminder that external assistance may not be as central to the success or failure of statebuilding as international organizations often presume." Menkhaus, 2004, p. 93.

[62] Mudoola, 1991.

[63] Colletta, et al., 1996.

[64] A new report issued by the United States Army examining the history of US operations in Iraq from May 2003 to January 2005 specifically criticizes the decision to disband the Iraqi army. For more information about the contents of the report, see Wright et al., 2008.

[65] UNDP launched a formal programme entitled The Civil Service Leadership Development Strategy to support senior executive cadre development in 2005. The objective of this programme is to strengthen civil service capacity by specially training 550 senior civil servants. Programme initiatives include at least one month's participation in new mentoring courses, short management modules and opportunities for overseas study. In addition to UNDP's programme, the Civil Service Training Institute supported by the EU and the Republic of Korea was opened in January 2007. UNDP and the Islamic Republic of Afghanistan, 2005.

[66] Ghani, Lockhart and Carnahan, 2005.

[67] Smoke and Taliercio, 2007.

[68] Lakhdar Brahimi at the open debate on Post-Conflict Peacebuilding held at the Security Council on May 20, 2008. For more information, see UNSC, 2008.

[69] Ghani et al., 2007, p. 10.

[70] UNDP Afghanistan, 2006.

[71] Endorsed in May 2005, The Paris Declaration on Aid Effectiveness is an international framework designed to improve aid harmonization, alignment and management, while empowering developing country governments to coordinate and implement development programmes according to internal priorities. For more information, see OECD, 2005b.

[72] Leader and Colenso, 2005, p. 23.

[73] Leader and Colenso, 2005.

[74] The credo "pessimism of the intellect, optimism of the will" is attributed to Antonio Gramsci, 1971.

[75] See for example: OECD, 2008c; Brautigam et al., 2008.

[76] Boyce and O'Donnell, 2007.

[77] United Nations Security Council, 2005.

[78] Corker et al., 2001.

[79] Carnahan, 2007.

[80] Gupta et al., 2007.

[81] World Bank, 2000b. p 70.

[82] For a discussion of several possible options for revenue generation in post-conflict settings, see Boyce, 2007 and Carnahan, 2007.

[83] Gupta et al., 2007.

[84] See for example Werner et al., 2006; Downie, 2007.

[85] Ghani et al., 2007.

[86] Initiated in May 2000, the Kimberley Process is "a joint governments, industry and civil society initiative to stem the flow of conflict diamonds" and to ensure that diamond purchases are not used to fund violence. See The Kimberely Process, 2002.

[87] Bell, 2005.

[88] ICG, 2006.

[89] Taliercio, 2004.

[90] Manasan, 2003.

[91] Manasan, 2003.

[92] Kangave, 2005.

[93] Fjeldstad, 2005.

[94] Rodas-Martini, 2007.

[95] Caumartin, 2005.

[96] Stewart, 2006.

[97] Reno, 2008.

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Appendices

Appendix A: Refugees Table

Year	Total Population of Concern	Refugees	Internally Displaced Persons
1980		8,455,000	
1981		9,714,000	
1982		10,319,000	
1983		10,621,000	
1984		10,728,000	
1985		11,864,000	
1986		12,634,000	
1987		13,128,000	
1988		14,347,000	
1989		14,733,000	
1990		17,396,000	
1991		16,855,000	
1992		17,838,000	
1993		16,326,000	
1994		15,754,000	
1995		14,896,000	
1996		13,357,000	
1997	20,047,700	12,015,400	
1998	20,124,700	11,480,900	4,935,600
1999	20,821,800	11,687,200	3,968,700
2000	22,006,100	12,129,600	5,998,500
2001	20,028,900	12,116,800	5,047,000
2002	20,892,500	10,594,100	4,600,000
2003	17,101,300	9,680,300	4,200,000
2004	19,518,400	9,559,100	5,400,000
2005	20,751,900	8,394,400	6,600,000
2006	32,900,000	9,900,000	12,800,000

Source: UNHCR, 2007, statistical tables.

Appendix B: GDP, GDP growth rates

		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Afghanistan																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Azerbaijan																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bosnia and Herzegovina																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi																				
	GDP	290	250	272	284	301	313	328	373	372	367	445	457	428	457	454	457	493	550	545
	GDP growth rate	..	-13.75	9.06	4.14	6.27	3.97	4.61	13.82	-0.3	-1.46	21.33	2.75	-6.4	6.89	-0.73	0.7	7.94	11.47	-0.94
Cambodia																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chad																				
	GDP	750	761	801	789	769	773	759	765	762	814	829	811	820	751	789	860	885	905	901
	GDP growth rate	..	1.4	5.36	-1.6	-2.51	0.61	-1.81	0.77	-0.46	6.88	1.86	-2.25	1.15	-8.38	4.96	9.01	2.98	2.23	-0.47
Congo, Dem. Rep. of the																				
	GDP	4993	4451	5395	5676	5538	5593	5972	5913	6170	6745	6729	7132	7143	7724	7966	7569	7167	7222	6836
	GDP growth rate	..	-10.85	21.2	5.21	-2.44	1	6.78	-0.99	4.33	9.33	-0.25	6.01	0.15	8.14	3.13	-4.98	-5.31	0.76	-5.35
Congo, Rep. of																				
	GDP	626	679	714	685	711	737	747	763	821	883	940	1012	1100	1190	1284	1383	1396	1271	1352
	GDP growth rate	..	8.35	5.2	-4.03	3.82	3.68	1.36	2.12	7.63	7.55	6.36	7.75	8.62	8.23	7.89	7.73	0.92	-8.95	6.36
Côte d'Ivoire																				
	GDP	2004	2203	2230	2553	3002	2909	3246	3395	3821	4186	4620	5057	5271	5584	5826	6306	7121	7642	8475
	GDP growth rate	..	9.93	1.23	14.49	17.61	-3.11	11.58	4.6	12.55	9.54	10.38	9.46	4.24	5.94	4.33	8.25	12.92	7.31	10.91
Croatia																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

cont'd

Note: GDP measured in constant 2000 US$ millions, GDP growth rate measured in % annual change.

Appendix B: GDP, GDP growth rates - continued

		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
El Salvador																				
	GDP	4018	4160	4657	4857	5310	5595	5996	6322	6527	6754	6955	7223	7665	8038	8467	8714	9154	9775	10295
	GDP growth rate	..	3.53	11.95	4.31	9.33	5.37	7.16	5.44	3.24	3.49	2.98	3.86	6.12	4.86	5.34	2.92	5.05	6.78	5.32
Eritrea																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Georgia																				
	GDP	..	..	..	..	..	3372	3626	3852	4024	4216	4725	4841	4979	5301	5768	6194	6572	7025	7547
	GDP growth rate	..	..	..	..	..	..	7.54	6.25	4.46	4.78	12.05	2.47	2.84	6.48	8.81	7.38	6.1	6.9	7.43
Guatemala																				
	GDP	3989	4161	4308	4719	4937	5153	5437	5660	6156	6448	6816	7197	7724	8248	8774	8945	9606	10356	10874
	GDP growth rate	..	4.3	3.54	9.54	4.63	4.36	5.51	4.11	8.77	4.74	5.71	5.58	7.33	6.78	6.38	1.95	7.39	7.81	5.00
Guinea-Bissau																				
	GDP	..	..	..	..	..	..	..	..	..	..	104	100	106	108	112	121	127	118	134
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	-3.91	6.37	1.11	4.56	7.85	4.94	-7.17	13.13
Haiti																				
	GDP	2932	2800	3066	2982	2916	2976	2997	2877	2929	3013	3003	3256	3301	3341	3552	3469	3766	3784	3966
	GDP growth rate	..	-4.5	9.52	-2.74	-2.21	2.06	0.69	-4	1.82	2.87	-0.34	8.45	1.38	1.19	6.32	-2.32	8.55	0.48	4.8
Indonesia (Aceh)																				
	GDP	18449	19575	19949	19500	20173	20364	20944	21180	23728	25503	27582	29512	31838	34951	37836	40176	42582	46259	50518
	GDP growth rate	..	6.1	1.91	-2.25	3.45	0.95	2.85	1.12	12.03	7.48	8.15	7	7.88	9.78	8.26	6.18	5.99	8.64	9.21
Lebanon																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Liberia																				
	GDP	719	737	747	764	803	841	906	967	1014	1087	1160	1217	1267	1239	1297	1252	1319	1340	1404
	GDP growth rate	..	2.44	1.34	2.27	5.15	4.79	7.7	6.75	4.77	7.29	6.66	4.9	4.14	-2.26	4.75	-3.47	5.31	1.59	4.82
Mozambique																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

cont'd

Appendix B: GDP, GDP growth rates - continued

		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Namibia																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nepal																				
	DP	1353	1379	1405	1432	1540	1521	1628	1603	1613	1685	1729	1708	1761	1753	1864	1891	1974	2034	2124
	GDP growth rate	..	1.91	1.91	1.9	7.53	-1.2	7.04	-1.57	0.68	4.46	2.58	-1.2	3.12	-0.48	6.33	1.46	4.4	3.02	4.41
Nicaragua																				
	GDP	1621	1741	1945	2138	2376	2590	2675	2862	2900	3081	3123	3226	3297	3509	4007	4001	4209	4562	4204
	GDP growth rate	..	7.4	11.7	9.94	11.11	9	3.3	6.97	1.34	6.24	1.35	3.3	2.22	6.42	14.19	-0.15	5.21	8.37	-7.84
Papua New Guinea																				
	GDP	760	807	858	893	970	1069	1132	1178	1229	1331	1475	1568	1656	1764	1810	1795	1734	1748	1898
	GDP growth rate	..	6.18	6.37	4.07	8.57	10.27	5.81	4.07	4.36	8.27	10.84	6.3	5.64	6.53	2.61	-0.88	-3.39	0.83	8.55
Rwanda																				
	GDP	665	636	709	639	559	599	641	685	733	814	862	873	875	905	918	899	1074	1095	1195
	GDP growth rate	..	-4.3	11.33	-9.82	-12.46	7.01	7.01	6.92	7.01	11.01	6	1.21	0.26	3.44	1.41	-2.11	19.5	1.99	9.15
Sierra Leone																				
	GDP	492	501	524	533	568	609	619	619	632	686	745	771	778	795	823	837	833	834	854
	GDP growth rate	..	1.81	4.54	1.7	6.69	7.18	1.7	0.04	2.02	8.53	8.62	3.47	0.9	2.26	3.5	1.67	-0.45	0.05	2.41
Solomon Islands																				
	GDP	..	..	..	..	..	..	..	84	88	86	90	92	66	74	93	82	94	107	117
	GDP growth rate	..	..	..	..	..	..	..	..	4.71	-2.89	5.13	2.36	-28.31	11.59	26.35	-11.87	13.82	14.42	8.89
Somalia																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	-3.26	7.08	2.81	-6.11	-5.94	9.1	5.94	2.03	-1.7	4.58	2.63	10.1	-1.95	-18.27	30.07	-1.02	23.31	3.73
Sri Lanka																				
	GDP	2709	2823	2931	3005	3122	3201	3362	3579	3786	4078	4235	4291	4273	4575	4751	5042	5210	5475	5785
	GDP growth rate	..	4.23	3.82	2.52	3.91	2.54	5.02	6.44	5.8	7.72	3.85	1.31	-0.41	7.06	3.85	6.13	3.34	5.1	5.65
Sudan																				
	GDP	3320	3321	3551	3450	3411	3642	3512	3562	3632	3682	3901	3988	3786	3810	4246	4913	5732	6089	5728
	GDP growth rate	..	0.02	6.92	-2.85	-1.12	6.78	-3.58	1.42	1.96	1.39	5.93	2.25	-5.07	0.63	11.45	15.71	16.67	6.22	-5.93
Tajikistan																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Timor-Leste																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda																				
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

cont'd

Appendix B: GDP, GDP growth rates - continued

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Afghanistan																	
GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola																	
GDP	..	..	..	..	..	..	7219	7421	8007	8456	8489	8464	8362	7785	5862	6068	6699
GDP growth rate	..	..	..	..	..	..	..	2.8	7.9	5.6	0.4	-0.3	-1.2	-6.9	-24.7	3.5	10.4
Azerbaijan																	
GDP	..	..	..	..	..	..	..	..	..	..	10140	8954	8891	6882	5292	4250	3748
GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	-11.7	-0.7	-22.6	-23.1	-19.7	-11.8
Bosnia and Herzegovina																	
GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1323	1598
GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	20.8
Burundi																	
GDP	554	560	627	621	644	645	721	744	785	825	836	865	908	918	860	827	762
GDP growth rate	1.66	0.99	12.16	-1.05	3.72	0.16	11.78	3.25	5.5	5.03	1.35	3.5	5	1.01	-6.24	-3.83	-7.92
Cambodia																	
GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2211	2412	2568
GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	9.1	6.44
Chad																	
GDP	708	665	672	708	819	835	1018	976	953	1100	1154	1106	1200	1296	1093	1203	1218
GDP growth rate	-21.44	-6.05	1.04	5.35	15.68	2.05	21.79	-4.08	-2.39	15.48	4.88	-4.18	8.54	8	-15.71	10.14	1.24
Congo, Dem. Rep. of the																	
GDP	6865	7016	7181	7148	7249	7650	7686	8049	8264	8303	8198	7659	7014	6278	5432	5220	5257
GDP growth rate	0.43	2.19	2.35	-0.46	1.41	5.54	0.47	4.72	2.68	0.47	-1.27	-6.57	-8.42	-10.5	-13.47	-3.9	0.7
Congo, Rep. of																	
GDP	1485	1746	2054	2539	2687	2875	2841	2646	2651	2698	2768	2796	2863	2937	2908	2748	2858
GDP growth rate	9.81	17.64	17.62	23.6	5.85	6.98	-1.19	-6.86	0.19	1.77	2.6	1	2.4	2.6	-1	-5.5	4
Côte d'Ivoire																	
GDP	8678	7727	7998	8014	7701	7493	7831	8086	8058	8149	8389	8298	8301	8281	8265	8332	8925
GDP growth rate	2.39	-10.96	3.5	0.2	-3.9	-2.7	4.5	3.26	-0.35	1.14	2.95	-1.1	0.04	-0.24	-0.19	0.81	7.13
Croatia																	
GDP	..	..	..	..	..	..	..	..	..	..	..	21496	16960	14976	13778	14591	15583
GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	-21.1	-11.7	-8	5.9	6.8
El Salvador																	
GDP	9865	8704	7794	7303	7415	7514	7560	7575	7765	7911	7987	8373	8672	9326	10014	10620	11299
GDP growth rate	-4.18	-11.77	-10.45	-6.31	1.54	1.34	0.62	0.19	2.51	1.88	0.96	4.83	3.58	7.54	7.37	6.05	6.4

cont'd

Appendix B: GDP, GDP growth rates - continued

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Eritrea																	
GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	430	487	591	608
GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	13.45	21.22	2.86
Ethiopia																	
GDP	..	..	4918	4964	5367	5222	4636	5085	5790	5820	5797	5954	5527	5044	5711	5897	6258
GDP growth rate	..	..	..	0.93	8.13	-2.71	-11.21	9.67	13.86	0.52	-0.39	2.69	-7.16	-8.73	13.2	3.27	6.13
Georgia																	
GDP	8103	8474	8920	9099	9490	10005	10500	9641	9765	10307	9566	8151	6431	3544	2505	2245	2303
GDP growth rate	7.37	4.58	5.27	2	4.3	5.43	4.94	-8.18	1.28	5.56	-7.2	-14.79	-21.1	-44.9	-29.3	-10.4	2.6
Guatemala																	
GDP	11386	11814	11891	11471	11176	11232	11163	11179	11575	12026	12500	12888	13359	14006	14556	15143	15892
GDP growth rate	4.71	3.76	0.65	-3.53	-2.57	0.5	-0.61	0.14	3.54	3.89	3.94	3.1	3.66	4.84	3.93	4.03	4.95
Guinea-Bissau																	
GDP	136	115	135	141	136	149	155	154	158	165	175	186	196	198	202	208	218
GDP growth rate	1.99	-15.95	18.17	4.2	-3.4	9.11	4.17	-0.79	2.9	4.6	6.1	6.1	5.1	1.1	2.1	3.2	4.4
Haiti																	
GDP	4255	4578	4453	4300	4333	4345	4354	4349	4316	4350	4396	4392	4578	3974	3878	3556	3416
GDP growth rate	7.3	7.57	-2.73	-3.43	0.76	0.3	0.2	-0.12	-0.75	0.77	1.06	-0.1	4.24	-13.19	-2.44	-8.29	-3.95
Indonesia (Aceh)																	
GDP	54101	58821	63614	64316	69751	74754	77353	81967	86311	91797	100136	109150	118895	127480	136727	147037	159382
GDP growth rate	7.09	8.72	8.15	1.1	8.45	7.17	3.48	5.96	5.3	6.36	9.08	9	8.93	7.22	7.25	7.54	8.4
Lebanon																	
GDP	..	..	..	..	..	..	..	..	..	11445	6587	8334	11518	12036	12879	13909	14818
GDP growth rate	..	..	..	..	..	..	..	..	..	..	-42.45	26.53	38.2	4.5	7	8	6.53
Liberia																	
GDP	1450	1391	1361	1328	1303	1275	1265	1243	1231	1206	884	433	371	241	162	126	121
GDP growth rate	3.26	-4.1	-2.14	-2.43	-1.9	-2.11	-0.84	-1.68	-1	-2.04	-26.67	-51.03	-14.23	-35.09	-32.98	-21.76	-4.27
Mozambique																	
GDP	..	2581	2710	2523	2127	1989	2009	1962	2251	2436	2594	2620	2748	2512	2683	2870	2965
GDP growth rate	..	..	5	-6.9	-15.7	-6.5	1	-2.3	14.7	8.2	6.5	1	4.9	-8.6	6.8	7	3.3
Namibia																	
GDP	..	2002	2020	2013	1977	1972	1983	2076	2149	2168	2208	2263	2447	2623	2571	2759	2872
GDP growth rate	..	..	0.89	-0.37	-1.77	-0.24	0.55	4.71	3.51	0.87	1.84	2.49	8.17	7.19	-2.01	7.32	4.11
Nepal																	
GDP	2174	2123	2301	2388	2316	2541	2697	2820	2868	3082	3218	3362	3585	3740	3871	4203	4341
GDP growth rate	2.37	-2.32	8.34	3.78	-2.98	9.68	6.14	4.57	1.7	7.48	4.39	4.47	6.64	4.34	3.5	8.56	3.3
Nicaragua																	
GDP	3091	3233	3407	3379	3535	3480	3337	3304	3280	2872	2823	2820	2815	2826	2815	2909	3081

cont'd

Appendix B: GDP, GDP growth rates - continued

		1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	GDP growth rate	-26.48	4.61	5.36	-0.82	4.61	-1.57	-4.08	-1.02	-0.71	-12.45	-1.7	-0.09	-0.19	0.39	-0.39	3.34	5.91
Papua New Guinea																		
	GDP	1932	1888	1883	1889	1950	1943	2021	2116	2175	2238	2206	2140	2344	2669	3154	3342	3231
	GDP growth rate	1.83	-2.3	-0.27	0.35	3.22	-0.35	4	4.69	2.77	2.91	-1.42	-3.01	9.55	13.85	18.2	5.94	-3.31
Rwanda																		
	GDP	1337	1457	1536	1564	1658	1587	1657	1748	1747	1826	1825	1782	1737	1839	1690	841	1137
	GDP growth rate	11.87	8.95	5.44	1.81	5.98	-4.24	4.4	5.47	-0.02	4.5	-0.04	-2.4	-2.51	5.87	-8.11	-50.25	35.22
Sierra Leone																		
	GDP	892	935	962	1008	987	1027	973	985	1056	981	989	1022	1046	847	859	842	774
	GDP growth rate	4.51	4.84	2.88	4.78	-2.1	4.09	-5.31	1.24	7.23	-7.08	0.73	3.35	2.35	-19.01	1.38	-1.95	-8
Solomon Islands																		
	GDP	145	137	155	160	182	184	186	222	228	236	255	260	269	294	300	316	338
	GDP growth rate	24.85	-6.05	13.5	2.93	13.87	1.25	0.85	19.8	2.43	3.61	8.12	1.78	3.59	9.36	2	5.2	7
Somalia																		
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	-2.71	-3.9	5.66	4.07	-8.75	3.55	8.15	3.35	5.1	-0.55	-0.18	-1.48	..	..	..	..	..
Sri Lanka																		
	GDP	6155	6515	6887	7172	7517	7900	8295	8657	8806	9024	9231	9822	10274	10726	11466	12108	12774
	GDP growth rate	6.4	5.85	5.7	4.14	4.81	5.1	5	4.36	1.73	2.47	2.3	6.4	4.6	4.4	6.9	5.6	5.5
Sudan - North/South																		
	GDP	5440	5523	5934	6287	6417	6096	5713	6022	6878	6856	7468	7059	7590	8089	8458	8544	9056
	GDP growth rate	-5.02	1.52	7.44	5.96	2.06	-5.01	-6.28	5.41	14.22	-0.33	8.93	-5.47	7.51	6.58	4.57	1.01	6
Tajikistan																		
	GDP	..	..	..	..	..	..	2377	2460	2431	2769	2589	2573	2390	1697	1419	1117	978
	GDP growth rate	..	..	..	..	..	..	..	3.5	-1.2	13.9	-6.5	-0.6	-7.1	-29	-16.4	-21.3	-12.4
Timor-Leste																		
	GDP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
	GDP growth rate	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda																		
	GDP	..	..	..	2360	2495	2487	2404	2414	2509	2717	2890	3077	3248	3359	3638	3871	4317
	GDP growth rate	..	..	..	..	5.74	-0.34	-3.31	0.39	3.96	8.27	6.36	6.47	5.55	3.42	8.33	6.4	11.52

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Appendix B: GDP, GDP growth rates - continued

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan											
GDP	..	..	..	..	..	..	..	..	..	..	..
GDP growth rate	..	..	..	..	..	..	..	15.67	7.99	14	5.34
Angola											
GDP	7449	8037	8584	8862	9129	9416	10780	11137	12383	14935	17707
GDP growth rate	11.2	7.9	6.8	3.24	3.01	3.14	14.49	3.31	11.18	20.61	18.56
Azerbaijan											
GDP	3797	4017	4419	4746	5273	5795	6409	7127	7854	9911	13331
GDP growth rate	1.3	5.8	10	7.4	11.1	9.9	10.6	11.2	10.2	26.2	34.5
Bosnia and Herzegovina											
GDP	2971	3993	4616	5059	5338	5572	5868	6102	6475	6798	7206
GDP growth rate	85.9	34.39	15.6	9.6	5.5	4.4	5.3	4	6.1	5	6
Burundi											
GDP	701	690	722	715	709	724	756	747	783	790	830
GDP growth rate	-8	-1.59	4.75	-1.01	-0.86	2.06	4.45	-1.22	4.83	0.9	5.12
Cambodia											
GDP	2707	2859	3002	3360	3654	3948	4206	4564	5021	5697	6314
GDP growth rate	5.41	5.62	5.01	11.91	8.77	8.04	6.54	8.51	10.02	13.46	10.83
Chad											
GDP	1245	1316	1407	1397	1385	1547	1678	1925	2572	2776	2790
GDP growth rate	2.21	5.65	6.95	-0.68	-0.88	11.66	8.49	14.72	33.63	7.94	0.47
Congo, Dem. Rep. of the											
GDP	5203	4911	4831	4625	4306	4215	4362	4614	4921	5239	5505
GDP growth rate	-1.02	-5.62	-1.62	-4.27	-6.9	-2.1	3.47	5.79	6.64	6.46	5.08
Congo, Rep. of											
GDP	2981	2963	3072	2992	3220	3342	3503	3563	3691	3975	4230
GDP growth rate	4.3	-0.6	3.7	-2.6	7.6	3.8	4.8	1.72	3.6	7.7	6.4
Côte d'Ivoire											
GDP	9615	10165	10648	10817	10417	10415	10266	10106	10287	10409	10498
GDP growth rate	7.73	5.72	4.75	1.59	-3.7	-0.02	-1.43	-1.56	1.79	1.18	0.85
Croatia											
GDP	16502	17624	18069	17914	18425	19244	20317	21402	22314	23273	24381
GDP growth rate	5.9	6.8	2.52	-0.86	2.86	4.44	5.58	5.34	4.26	4.3	4.76
El Salvador											
GDP	11492	11980	12429	12857	13134	13359	13671	13986	14245	14684	15298
GDP growth rate	1.71	4.25	3.75	3.45	2.15	1.71	2.34	2.3	1.85	3.09	4.18

cont'd

Appendix B: GDP, GDP growth rates - continued

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Eritrea											
GDP	664	716	729	729	634	692	697	739	753	757	749
GDP growth rate	9.26	7.91	1.77	0.01	-13.12	9.23	0.66	6.09	1.86	0.5	-0.98
Ethiopia											
GDP	7082	7333	7036	7461	7903	8513	8618	8315	9407	10367	11298
GDP growth rate	13.16	3.54	-4.05	6.04	5.93	7.71	1.24	-3.51	13.13	10.2	8.99
Georgia											
GDP	2561	2831	2918	3002	3057	3204	3380	3755	3975	4357	4766
GDP growth rate	11.2	10.52	3.1	2.88	1.83	4.79	5.5	11.1	5.85	9.6	9.4
Guatemala											
GDP	16362	17076	17929	18619	19291	19741	20184	20615	21164	21851	22834
GDP growth rate	2.96	4.36	4.99	3.85	3.61	2.33	2.25	2.13	2.67	3.24	4.5
Guinea-Bissau											
GDP	243	259	186	200	215	216	201	202	206	213	222
GDP growth rate	11.6	6.5	-28.1	7.8	7.5	0.2	-7.1	0.6	2.2	3.5	4.2
Haiti											
GDP	3556	3653	3733	3834	3849	3808	3799	3812	3678	3744	3830
GDP growth rate	4.12	2.7	2.2	2.7	0.39	-1.04	-0.26	0.36	-3.52	1.8	2.3
Indonesia (Aceh)											
GDP	171564	179627	156048	157282	165021	171033	178729	187273	196694	207872	219271
GDP growth rate	7.64	4.7	-13.13	0.79	4.92	3.64	4.5	4.78	5.03	5.68	5.48
Lebanon											
GDP	15579	16286	16761	16570	16822	17611	18163	18906	20313	20516	20516
GDP growth rate	5.14	4.54	2.91	-1.14	1.52	4.69	3.14	4.09	7.44	1	0
Liberia											
GDP	136	280	363	446	561	577	599	411	422	444	479
GDP growth rate	12.12	106.28	29.7	22.9	25.7	2.9	3.7	-31.3	2.6	5.3	7.8
Mozambique											
GDP	3183	3509	3887	4203	4249	4754	5173	5485	5918	6414	6925
GDP growth rate	7.35	10.24	10.78	8.12	1.09	11.9	8.82	6.02	7.88	8.39	7.97
Namibia											
GDP	2964	3089	3191	3298	3414	3495	3729	3858	4114	4308	4433
GDP growth rate	3.2	4.22	3.29	3.37	3.49	2.4	6.67	3.48	6.63	4.71	2.9
Nepal											
GDP	4573	4814	4955	5178	5494	5803	5810	6040	6322	6520	6702
GDP growth rate	5.34	5.26	2.94	4.5	6.1	5.63	0.12	3.95	4.68	3.12	2.8
Nicaragua											
GDP	3276	3406	3533	3781	3936	4053	4083	4186	4409	4600	4770
GDP growth rate	6.34	3.97	3.71	7.04	4.1	2.96	0.75	2.52	5.31	4.35	3.69

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Appendix B: GDP, GDP growth rates - continued

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Papua New Guinea											
GDP	3481	3345	3219	3462	3420	3417	3410	3485	3579	3697	3793
GDP growth rate	7.73	-3.9	-3.77	7.55	-1.21	-0.1	-0.2	2.2	2.7	3.3	2.6
Rwanda											
GDP	1282	1459	1588	1709	1811	1933	2114	2134	2218	2351	2476
GDP growth rate	12.75	13.85	8.86	7.58	5.97	6.72	9.38	0.95	3.95	5.99	5.3
Sierra Leone											
GDP	813	670	665	611	634	749	955	1043	1120	1202	1290
GDP growth rate	5	-17.6	-0.84	-8.12	3.81	18.17	27.46	9.29	7.36	7.28	7.37
Solomon Islands											
GDP	350	345	351	349	299	272	268	285	308	323	343
GDP growth rate	3.5	-1.4	1.8	-0.5	-14.3	-9	-1.6	6.4	8	5	6.1
Somalia											
GDP	:	:	:	:	:	:	:	:	:	:	:
GDP growth rate	:	:	:	:	:	:	:	:	:	:	:
Sri Lanka											
GDP	13260	14108	14771	15406	16331	16078	16716	17722	18688	19814	21271
GDP growth rate	3.8	6.4	4.7	4.3	6	-1.55	3.96	6.02	5.45	6.03	7.35
Sudan											
GDP	9592	10609	11065	11408	12366	13133	13842	14825	15581	16921	18917
GDP growth rate	5.92	10.6	4.3	3.1	8.4	6.2	5.4	7.1	5.1	8.6	11.8
Tajikistan											
GDP	815	829	873	905	980	1080	1178	1298	1436	1532	1640
GDP growth rate	-16.7	1.7	5.3	3.7	8.3	10.2	9.1	10.2	10.6	6.7	7
Timor-Leste											
GDP	:	:	:	278	316	369	344	323	324	331	326
GDP growth rate	:	:	:	:	13.66	16.54	-6.7	-6.17	0.34	2.29	-1.6
Uganda											
GDP	4709	4949	5191	5610	5926	6219	6618	6930	7306	7795	8219
GDP growth rate	9.07	5.1	4.91	8.05	5.64	4.94	6.4	4.72	5.43	6.69	5.44

Sources: IMF, 2007a; Heston, Summers and Aten, 2006.

Appendix C: GDP per capita annual change (%)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Afghanistan	0.00	0.92	21.25	0.06	1.43	5.35	0.51	-6.62	4.08	-3.99	0.06	8.38	5.46	4.38	1.03	-0.27	2.68	-11.11	-9.90	-9.02
Angola	..	6.01	0.17	8.11	3.15	-5.04	-5.25	0.74	-5.30	0.32	0.06	-6.92	-2.58	1.54	3.27	-8.15	0.04	1.49	3.33	-2.63
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	19.66	1.69	-7.12	6.14	-1.60	-0.55	6.18	9.26	-3.23	-0.98	-1.90	8.70	-4.30	0.20	-3.25	8.04	-0.14	2.14	1.86	-1.44
Cambodia	..	-6.19	-6.53	-19.93	-6.54	-2.77	-1.31	-15.68	-1.00	-13.69	-7.06	-0.35	-4.85	-4.80	-3.40	-4.98	-6.23	17.86	6.30	0.20
Chad	3.71	-4.36	-1.05	-10.36	2.74	6.76	0.92	0.22	-2.43	-23.02	-8.00	-1.12	3.02	13.00	2.69	5.26	3.38	1.12	4.92	-0.53
Congo, Dem. Rep. of the	-3.24	2.85	-2.81	4.93	0.03	-7.88	-8.26	-2.42	-8.33	-2.68	-0.87	-0.62	-3.28	-1.43	2.56	-2.41	1.70	-0.30	-2.53	-4.37
Congo, Rep. of	3.21	4.52	5.32	4.92	4.58	4.44	-2.16	-11.72	3.12	6.45	14.01	13.97	19.74	2.53	3.61	-4.31	-9.81	-2.99	-1.47	-0.65
Côte d'Ivoire	5.73	4.90	-0.09	1.51	-0.13	3.49	7.83	2.41	5.78	-2.37	-15.12	-1.34	-3.54	-7.22	-4.67	-0.26	0.84	-4.21	0.21	-1.07
Croatia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
El Salvador	-0.37	0.75	3.18	2.13	2.69	0.38	2.46	4.20	2.95	-6.04	-13.13	-11.45	-7.04	0.93	0.71	-0.18	-0.82	1.29	0.47	-0.61
Eritrea	-0.41	2.26	1.62	0.90	-0.48	-2.16	1.29	-1.22	-2.06	2.74	2.56	-3.93	-1.18	5.66	-4.13	-14.55	5.83	10.16	4.20	-3.30
Ethiopia	-0.41	2.26	1.62	0.90	-0.48	-2.16	1.29	-1.22	-2.06	2.74	2.56	-3.93	-1.18	5.66	-4.13	-14.55	5.83	10.16	4.20	-3.30
Georgia	11.05	1.56	1.94	5.58	7.94	6.58	5.37	6.22	6.76	6.67	3.83	4.48	1.21	3.46	4.52	3.98	-9.10	0.22	4.63	-7.61
Guatemala	2.87	2.73	4.42	3.90	3.56	-0.68	4.71	5.19	2.49	2.21	1.26	-1.81	-5.90	-4.96	-1.94	-2.97	-2.18	1.18	1.55	1.61
Guinea-Bissau		-5.34	4.60	-0.91	1.94	4.52	1.07	-11.01	8.34	-2.01	-18.81	14.84	1.74	-5.42	6.87	1.89	-3.11	0.39	-0.14	0.81
Haiti	-2.02	6.66	-0.27	-0.47	4.51	-4.07	6.51	-1.49	2.66	5.03	5.22	-4.91	-5.63	-1.57	-2.06	-2.18	-2.51	-3.13	-1.57	-1.13
Lebanon		..	..	..	..	..	..	..				1.31	-36.55	22.71	44.48	22.90	-8.15	15.45	-28.99	-42.81
Liberia	3.64	1.92	1.16	-5.07	1.71	-6.30	2.25	-1.32	1.77	0.11	-7.20	-5.53	-5.93	-5.17	-4.72	-2.57	-2.49	-1.09	-1.53	-25.99
Mozambique	-3.68	4.84	1.99	1.73	3.37	1.47	2.31	-3.39	-1.91	-0.08	2.31	1.70	-9.43	-17.71	-8.38	-0.58	-3.48	13.62	7.37	5.75
Namibia	-1.98	-3.93	-2.46	-2.63	1.11	4.18	-1.88	7.41	-0.87	-1.29	-2.32	-1.09	-2.37	-4.00	-3.00	-2.85	0.51	-1.12	-3.83	-2.74
Nicaragua	-1.87	0.00	-1.06	3.00	10.53	-3.34	1.88	4.97	-10.69	-28.72	1.49	0.57	-4.06	1.15	-4.85	-7.27	-4.30	-4.02	-15.31	-4.97
Papua New Guinea	8.38	3.92	3.27	4.11	0.24	-3.21	-5.70	-1.61	5.89	-0.66	-4.67	-1.51	-1.44	1.16	-3.12	1.09	3.48	1.86	2.31	-5.53
Rwanda	2.52	-1.96	-2.77	0.35	-1.66	-5.16	15.67	-1.34	5.57	8.25	5.50	-1.17	-5.98	2.17	10.29	0.97	1.99	-3.65	-3.12	-8.81
Sierra Leone	6.66	1.64	-0.84	0.50	1.71	-0.13	-2.25	-1.81	0.48	2.53	2.86	-0.56	-0.31	-3.83	1.12	-8.56	-2.06	0.19	-0.08	2.54
Solomon Islands	1.66	-1.19	-30.89	7.51	21.77	-15.00	9.89	10.56	5.25	20.67	-9.23	-1.80	-5.77	-0.27	-3.68	-6.72	-3.77	4.68	-2.13	0.74
Tajikistan		..	..	..	..	..	..										0.28	-4.33	10.38	-9.16
Uganda	0.14	-3.24	4.00	0.79	-3.27	-0.72	-1.60	0.22	-4.72	-19.05	-4.77	0.69	4.91	1.64	-6.13	-6.29	-2.64	0.18	4.28	2.53

Appendix C: GDP per capita annual change (%) - continued

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan	-7.91	4.69	-21.22	-21.45	-10.10	-9.91	2.06	9.51	1.75	-15.91	-45.70	-12.52	25.71	10.81	3.94	9.72	3.43
Angola	-5.96	-1.76	-8.40	-26.05	-1.42	11.87	15.82	2.53	-2.82	0.33	0.08	0.21	11.27	0.37	8.02	17.18	15.19
Azerbaijan	..	-2.23	-23.76	-24.26	-20.78	-14.02	1.50	7.84	5.00	9.96	5.37	5.70	7.32	9.64	9.34	23.28	29.95
Bosnia and Herzegovina	..	-11.89	-25.35	-21.25	17.19	66.97	33.40	26.58	32.47	7.38	3.65	3.17	4.13	2.69	5.24	4.15	5.17
Burundi	0.97	2.74	-1.79	-6.07	-5.47	-9.61	-9.66	-1.21	2.92	-1.01	-2.80	-2.84	0.72	-3.97	2.78	-1.07	3.06
Cambodia	-1.94	4.34	3.83	0.90	-7.63	3.26	2.16	2.76	2.45	9.55	7.01	6.35	4.85	6.70	8.48	11.02	8.15
Chad	0.68	7.81	-0.01	-4.37	3.02	-6.58	-0.38	3.05	4.30	-3.16	-3.37	8.93	5.85	4.80	30.37	5.31	-1.98
Congo, Dem. Rep. of the	-9.69	-11.37	-13.32	-16.23	-6.94	-2.55	-3.56	-7.37	-3.59	-6.14	-8.93	-4.50	0.72	2.82	3.54	3.33	2.02
Congo, Rep. of	-2.03	-0.63	-0.46	-3.90	-8.24	1.01	4.29	-3.43	0.81	-5.33	4.54	0.88	1.63	-2.03	0.56	4.72	3.12
Côte d'Ivoire	-4.97	-3.82	-4.03	-4.04	7.33	3.18	2.15	2.89	1.79	-0.57	-6.64	-1.83	-3.19	-3.17	0.06	-0.03	-0.60
Croatia		-21.49	-12.65	-9.47	5.92	5.26	4.49	5.62	4.52	0.91	4.30	2.62	3.11	2.88	3.64	4.30	4.60
El Salvador	3.04	1.64	5.38	5.10	3.78	4.13	-0.38	2.11	1.64	1.38	0.23	-0.19	0.47	0.32	0.12	1.28	2.36
Eritrea	-0.63	-11.41		8.93	13.23	-1.18	4.21	5.66	-8.52	-11.78	-1.71	3.19	4.09	2.37	-2.24		
Ethiopia	-0.63	-11.41	-11.80	9.82	1.40	3.85	9.70	0.43	-6.87	2.96	2.88	4.57	-1.50	-6.14	10.05	7.20	6.02
Georgia	-14.64	-20.41	-44.07	-27.93	-8.58	5.50	13.33	13.38	4.10	3.77	2.73	5.50	6.22	11.84	6.52	9.44	7.37
Guatemala	0.78	1.31	2.46	1.57	1.68	2.60	0.67	1.43	1.86	0.98	-0.13	-0.29	1.14	-1.41	-0.82	-0.99	2.57
Guinea-Bissau	2.43	3.00	-0.97	0.01	1.09	2.33	2.51	4.38	-28.61	5.49	-7.49	-2.69	-9.89	-3.61	-0.83	0.21	-0.30
Haiti	-2.04	-0.58	-4.13	-6.84	-13.48	1.00	3.07	6.15	0.67	0.40	-0.83	-2.68	-2.57	-1.65	-4.28	-1.34	0.38
Lebanon	-14.35	35.49	2.45	4.90	5.88	4.41	1.96	1.96	0.62	-2.71	0.41	3.14	1.94	2.80	6.07	-0.30	-1.28
Liberia	-50.49	-12.96	-33.97	-32.29	-22.47	-7.59	5.19	89.83	18.98	14.23	22.07	-0.69	1.57	-32.23	0.81	2.44	3.66
Mozambique	0.22	3.29	-10.28	4.56	4.12	0.69	4.10	8.43	10.38	5.42	-0.32	10.72	6.05	5.87	5.60	3.74	6.06
Namibia	-1.75	-0.30	4.82	-5.10	4.02	0.95	0.06	1.13	0.39	0.75	1.22	0.51	5.03	2.14	5.35	3.03	3.77
Nicaragua	-3.04	-3.17	-2.81	-3.58	1.66	5.18	3.50	1.33	0.89	3.97	1.43	0.00	-1.83	-0.11	2.61	1.68	1.28
Papua New Guinea	-7.08	6.26	5.50	15.24	3.23	-5.98	3.85	-8.72	2.06	-0.65	-4.85	-2.52	-2.54	-0.25	0.31	1.00	0.24
Rwanda	-1.90	-7.15	3.43	-8.20	-25.48	37.94	-8.96	10.43	4.24	0.90	-1.41	2.05	7.09	-1.90	1.22	0.74	3.41
Sierra Leone	-0.68	-10.02	-11.80	-2.51	1.15	-12.22	-21.36	-19.76	-3.44	-10.54	1.18	15.18	24.20	6.69	4.65	4.54	4.66
Solomon Islands	-1.27	2.52	9.09	0.80	3.30	5.35	-1.00	0.59	-0.87	-3.10	-16.54	-11.45	-4.33	3.54	5.05	2.12	3.21
Tajikistan	-3.09	-9.08	-30.29	-17.72	-22.45	-13.65	-17.88	0.29	3.65	1.95	9.53	9.33	8.36	9.52	9.89	6.06	6.36
Uganda	2.76	-1.66	-0.59	4.79	3.12	7.91	5.85	2.38	0.56	5.04	2.03	1.42	3.41	0.87	2.08	3.01	1.77

Source: World Bank, 2007a; Heston, Summers and Aten, 2006.

Appendix D: ODA, total and on infrastructure

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Angola																	
Total ODA	212.58	363.72	393.76	68.85	184.32	338.09	362.29	235.83	239.88	237.90	287.42	258.12	406.92	613.22	1078.58	433.90	246.47
ODA-Infrastructure	47.25	143.61	173.57	1.01	15.30	4.81	51.33	21.31	24.61	22.22	17.32	15.31	11.09	2.80	2.24	4.45	10.70
Azerbaijan																	
Total ODA	0.00	0.00	1.02	1.00	27.03	207.98	67.52	143.50	294.47	320.04	167.72	128.10	207.58	195.03	166.97	474.58	256.78
ODA-Infrastructure	0.00	0.00	0.00	0.00	5.39	0.74	27.24	8.19	176.35	182.95	17.37	58.69	7.05	23.65	22.18	283.91	30.61
Bosnia and Herzegovina																	
Total ODA	0.00	0.00	0.01	12.79	14.41	260.45	499.92	707.23	753.67	1137.03	693.46	558.39	477.31	483.18	597.61	449.15	480.31
ODA-Infrastructure	0.00	0.00	0.00	0.00	0.00	0.00	58.12	151.89	287.30	251.64	84.19	109.90	114.99	38.75	88.49	44.40	131.22
Burundi																	
Total ODA	181.01	183.47	219.33	135.56	132.38	90.57	38.81	28.81	56.99	139.22	131.94	124.85	249.32	195.26	519.55	305.27	561.43
ODA-Infrastructure	62.92	31.99	37.47	32.00	4.98	1.70	0.79	0.11	0.00	0.85	0.04	0.14	0.68	0.05	102.44	3.51	37.81
Cambodia																	
Total ODA	18.16	64.02	122.16	250.47	260.93	406.15	359.35	296.51	185.93	384.07	415.63	377.62	423.01	592.39	534.02	543.15	564.94
ODA-Infrastructure	0.00	7.55	45.75	41.55	74.36	110.15	36.43	101.73	13.72	162.95	38.92	68.10	32.47	128.42	108.19	132.18	84.93
Congo, Dem. Rep. of the																	
Total ODA	546.27	503.34	10.84	26.78	83.13	203.91	128.44	99.50	86.02	92.88	171.67	253.93	1480.68	5855.41	2033.03	2046.21	2019.34
ODA-Infrastructure	43.63	51.88	0.19	2.75	16.99	37.43	0.29	0.38	12.05	4.38	1.81	15.15	76.48	123.34	10.99	100.45	63.10
Côte d'Ivoire																	
Total ODA	662.12	586.95	635.37	506.11	1248.97	931.82	666.85	334.68	1180.02	521.28	449.46	194.24	1481.48	411.43	304.27	257.59	405.97
ODA-Infrastructure	57.73	118.59	30.22	1.27	7.87	99.66	293.92	57.90	247.07	43.20	37.25	1.08	19.68	0.11	0.68	1.20	0.75
El Salvador																	
Total ODA	318.04	292.11	370.87	428.91	214.41	219.92	210.32	139.56	133.66	216.96	118.40	386.01	267.20	153.41	135.10	228.43	177.23
ODA-Infrastructure	13.35	52.97	9.56	109.75	111.39	11.04	70.42	3.22	9.64	6.87	16.96	104.98	12.38	21.73	4.92	21.35	2.12
Georgia																	
Total ODA				3.19	74.13	165.84	215.55	249.67	231.26	296.15	221.00	289.31	253.21	225.03	291.99	309.31	680.09
ODA-Infrastructure				0.00	11.59	17.48	59.59	56.89	119.48	69.98	103.64	64.73	40.20	35.96	61.97	100.43	332.08
Guatemala																	
Total ODA	215.58	163.05	141.30	164.10	92.26	163.00	145.60	318.03	274.20	369.24	221.42	193.07	253.00	268.24	250.30	339.06	570.92
ODA-Infrastructure	61.97	4.83	9.86	4.30	5.51	2.05	0.50	2.47	31.04	61.68	0.31	1.98	9.82	1.75	3.72	3.67	66.56
Guinea-Bissau																	
Total ODA	111.85	65.60	59.76	64.38	195.20	98.29	138.26	88.20	27.71	59.23	84.82	54.21	84.47	112.14	57.36	86.88	76.35
ODA-Infrastructure	24.15	17.15	17.49	9.91	3.14	0.07	29.40	4.49	4.42	17.03	4.17	8.02	59.24	1.83	7.07	0.10	9.13
Haiti																	
Total ODA	195.58	164.90	51.30	103.49	185.26	563.74	234.62	330.27	373.43	258.95	151.01	155.90	211.93	387.30	376.21	967.67	572.48
ODA-Infrastructure	60.12	10.49	0.00	7.75	0.58	81.91	61.45	62.63	10.56	6.59	8.69	4.36	1.45	3.81	44.88	94.01	39.44

Appendix D: ODA, total and on infrastructure - continued

Liberia																	
Total ODA	14.15	43.75	17.82	20.64	53.74	24.22	36.65	53.72	87.62	47.91	22.55	43.05	49.62	164.32	265.53	220.85	349.22
ODA-Infrastructure	0.00	0.00	0.08	0.00	0.45	0.00	0.44	0.64	1.16	0.30	0.10	0.01	0.05	0.04	0.00	0.09	47.87
Mozambique																	
Total ODA	718.47	859.30	1655.30	919.54	960.71	796.04	664.47	849.76	729.11	1131.64	1363.72	1103.49	2146.12	1038.07	1175.17	1410.68	1314.11
ODA-Infrastructure	140.63	114.92	204.55	135.76	277.83	72.22	96.28	129.15	60.44	251.22	178.23	283.64	95.84	243.92	185.03	159.37	173.37
Namibia																	
Total ODA	70.90	213.70	94.60	187.16	123.73	134.76	123.36	71.64	137.68	79.29	101.15	84.95	84.87	128.86	217.42	107.97	201.25
ODA-Infrastructure	9.00	45.55	17.41	14.92	31.04	31.46	50.02	9.02	25.42	23.32	16.62	10.34	9.28	4.74	21.98	25.25	90.39
Papua New Guinea																	
Total ODA	117.03	285.01	217.50	277.86	438.14	23.26	368.70	346.60	193.10	263.95	426.88	169.14	238.45	214.40	504.98	257.77	304.03
ODA-Infrastructure	16.40	130.56	33.37	3.71	146.04	0.35	108.13	18.97	55.87	18.90	84.78	70.01	7.72	39.99	159.64	40.27	45.23
Rwanda																	
Total ODA	189.66	369.16	224.00	134.12	226.74	254.66	306.81	277.62	338.97	305.46	455.83	263.20	353.70	612.82	429.02	523.83	696.33
ODA-Infrastructure	65.59	53.68	62.42	55.87	14.95	8.89	2.02	53.13	0.65	1.31	1.57	45.41	31.98	52.45	11.93	64.57	48.74
Sierra Leone																	
Total ODA	23.58	85.04	208.24	249.21	67.89	88.00	128.21	54.80	71.79	168.70	285.70	291.36	230.36	502.45	387.64	390.13	250.00
ODA-Infrastructure	0.68	67.81	23.17	99.40	38.29	0.08	35.00	1.89	2.43	3.40	2.25	0.19	2.79	60.81	46.32	60.34	4.75
Solomon Islands																	
Total ODA	23.03	22.44	28.64	62.90	35.66	19.32	30.99	11.41	43.37	92.04	70.43	31.30	22.69	112.61	96.15	168.37	200.64
ODA-Infrastructure	7.60	4.88	3.16	7.72	8.91	1.98	16.78	0.00	7.19	5.00	5.73	0.21	0.55	1.04	7.19	7.69	31.97
Tajikistan																	
Total ODA			10.82	14.62	30.62	34.93	97.13	61.26	100.58	163.79	85.63	208.73	245.37	204.13	228.83	237.37	241.17
ODA-Infrastructure			0.00	0.00	5.38	4.11	0.23	0.05	0.00	0.84	2.65	56.32	13.18	30.07	49.34	43.53	38.38
Timor-Leste																	
Total ODA	0.00	0.00	0.00	0.00	0.00	0.02	0.01	0.01	2.21	189.48	240.97	188.53	225.64	216.08	164.55	187.33	201.02
ODA-Infrastructure						0.00	0.00	0.00	0.00	0.17	1.40	3.28	9.95	26.83	38.12	3.81	15.83

Source: OECD database, 2008a.

Appendix E: ODA to health and education sectors as a percentage of ODA

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Angola																		
	ODA-Health	3.66	9.56	4.84	17.67	8.11	11.35	47.81	16.05	5.58	10.59	33.73	44.84	30.80	36.79	32.58	52.59	15.50
	ODA-Education	5.80	1.17	11.37	0.18	4.17	21.18	3.61	5.83	6.36	11.48	17.09	29.90	23.12	77.45	15.44	62.64	37.79
Azerbaijan																		
	ODA-Health	0.00	0.00	0.00	0.00	6.46	0.00	0.35	0.00	0.42	8.50	6.04	5.23	4.13	3.80	0.76	5.52	51.68
	ODA-Education	0.00	0.00	0.00	0.00	0.07	0.00	0.10	0.08	0.22	6.28	2.40	1.88	3.39	22.25	6.32	4.75	6.41
Bosnia and Herzegovina																		
	ODA-Health	0.00	0.00	0.00	0.64	1.35	0.15	5.30	33.18	7.50	32.28	8.56	8.28	7.91	1.82	22.94	27.45	2.75
	ODA-Education	0.00	0.00	0.01	0.00	0.15	1.29	44.69	18.62	9.21	16.46	24.18	26.44	30.03	25.89	39.02	32.20	31.35
Burundi																		
	ODA-Health	10.60	0.10	23.70	12.10	3.50	30.70	0.50	2.50	13.60	0.80	2.40	2.30	3.80	17.20	7.20	5.20	18.60
	ODA-Education	1.30	0.10	2.80	12.10	5.70	3.40	1.70	0.50	1.10	2.20	1.70	1.80	3.00	18.20	5.00	10.50	26.00
Cambodia																		
	ODA-Health	3.38	1.61	8.15	10.05	24.07	22.17	39.16	19.23	7.94	10.09	18.11	20.50	43.03	76.57	33.99	48.06	31.78
	ODA-Education	0.00	0.53	4.05	8.65	9.37	16.83	45.55	21.56	6.74	23.99	12.08	14.77	87.50	20.20	39.78	52.55	61.36
Congo, Dem. Rep. of the																		
	ODA-Health	8.99	5.85	1.50	0.44	25.97	11.59	63.39	11.73	15.17	12.59	22.20	29.81	52.41	39.58	117.31	296.24	69.48
	ODA-Education	0.40	21.35	1.25	1.37	1.92	4.67	2.07	2.48	7.34	8.29	12.72	12.15	21.96	22.24	76.17	36.46	30.88
Côte d'Ivoire																		
	ODA-Health	10.77	17.55	26.00	0.60	15.61	33.36	51.67	10.74	24.57	38.21	3.36	5.35	4.77	14.72	13.95	6.96	25.06
	ODA-Education	0.87	6.43	5.21	6.18	202.16	16.66	18.13	39.51	95.00	70.38	32.16	21.03	62.38	31.16	34.89	29.21	34.97
El Salvador																		
	ODA-Health	1.20	18.60	12.30	33.40	5.20	19.30	10.40	14.00	12.10	7.40	10.80	11.90	16.10	11.10	8.40	24.50	19.60
	ODA-Education	28.00	16.30	13.40	15.80	7.70	11.40	15.90	24.20	12.10	14.90	8.20	13.80	15.50	8.70	9.60	10.20	19.00
Georgia																		
	ODA-Health	0.00	0.00	0.00	0.00	8.70	0.41	15.37	1.66	3.12	10.52	3.92	12.44	24.75	13.66	9.71	13.17	21.64
	ODA-Education	0.00	0.00	0.00	0.00	0.14	0.01	1.12	0.35	0.51	11.25	7.88	32.30	11.62	25.81	24.53	5.57	31.86
Guatemala																		
	ODA-Health	0.20	33.20	6.80	15.00	0.70	19.90	10.50	71.50	25.10	23.00	15.60	4.50	27.10	19.20	4.80	38.10	28.60
	ODA-Education	10.40	12.50	7.60	4.10	5.80	5.60	31.80	29.40	31.50	27.20	17.40	22.60	22.20	19.20	17.00	39.00	23.00
Guinea-Bissau																		
	ODA-Health	1.48	2.56	1.28	1.78	0.00	13.07	0.01	14.32	4.11	0.22	1.24	5.53	2.18	2.38	11.14	3.49	5.16
	ODA-Education	1.52	8.88	13.93	1.03	1.29	1.78	0.04	23.39	1.07	4.68	4.83	3.71	3.79	14.08	4.66	15.89	6.13
Haiti																		
	ODA-Health	31.56	8.41	1.59	13.25	16.99	79.70	7.32	16.99	36.86	20.46	13.25	7.78	2.73	12.49	23.76	23.69	42.50
	ODA-Education	3.40	17.77	2.81	0.25	3.60	21.87	3.85	53.33	33.99	14.63	19.52	38.76	16.65	13.45	16.86	47.00	50.59

Appendix E: ODA to health and education sectors as a percentage of ODA - continued

Liberia																		
	ODA-Health	0.00	0.01	0.42	3.43	0.04	0.03	0.30	2.72	7.78	3.93	5.01	2.35	2.09	8.00	23.66	6.44	7.55
	ODA-Education	0.38	0.00	0.00	0.19	0.27	0.24	0.01	1.87	2.85	1.29	1.21	1.02	1.26	2.27	3.88	3.20	16.85
Mozambique																		
	ODA-Health	8.80	45.20	50.90	4.80	59.10	149.00	60.40	41.90	20.20	43.80	103.50	70.90	56.10	96.90	98.10	97.90	115.90
	ODA-Education	7.20	140.70	35.60	12.50	19.30	6.50	35.60	33.50	39.70	102.90	60.80	63.00	149.30	76.20	53.60	197.30	130.80
Namibia																		
	ODA-Health	5.76	17.92	0.01	18.51	4.75	11.22	1.82	1.36	10.95	3.42	1.52	2.87	3.99	0.98	6.53	1.35	1.11
	ODA-Education	9.52	83.92	19.80	18.33	26.43	30.41	8.51	12.36	31.98	10.47	24.06	13.09	10.40	44.13	6.22	5.32	6.44
Papua New Guinea																		
	ODA-Health	12.40	38.50	13.00	0.00	1.70	0.00	54.40	29.20	8.70	17.70	82.70	16.00	35.40	5.30	28.60	37.50	43.20
	ODA-Education	7.50	4.00	9.00	44.80	33.10	5.00	28.20	122.50	50.80	45.30	77.60	12.20	8.40	70.70	16.50	66.40	33.70
Rwanda																		
	ODA-Health	0.00	0.00	0.50	1.41	3.84	7.72	15.99	11.91	15.34	10.73	16.62	8.00	30.28	14.12	31.82	25.58	26.14
	ODA-Education	2.44	28.46	0.59	1.78	6.72	4.50	17.71	9.03	38.19	14.91	47.03	30.31	12.16	12.25	13.39	15.54	76.12
Sierra Leone																		
	ODA-Health	0.20	0.00	1.00	0.00	1.50	0.20	21.90	14.80	3.40	3.70	28.10	3.00	2.40	27.90	14.30	40.70	7.40
	ODA-Education	0.10	0.00	17.30	0.40	1.40	0.30	1.60	0.50	0.80	1.00	1.40	6.00	24.30	59.70	9.00	8.50	6.80
Solomon Islands																		
	ODA-Health	3.81	0.00	5.76	0.63	1.08	0.10	0.88	0.28	0.54	0.79	11.32	5.69	6.85	7.30	6.27	1.11	9.45
	ODA-Education	1.74	2.40	6.95	29.11	0.71	1.59	6.13	0.42	2.20	4.44	4.30	0.63	0.61	5.30	7.48	23.25	4.46
Tajikistan																		
	ODA-Health	0.00	0.00	0.00	0.00	5.97	1.47	1.09	1.67	0.90	0.56	6.84	1.14	8.03	7.62	17.06	28.00	25.14
	ODA-Education	0.00	0.00	0.00	0.00	0.11	0.29	0.01	0.00	0.03	9.82	2.53	2.71	2.13	24.65	16.78	13.05	7.15
Timor-Leste																		
	ODA-Health	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.51	1.52	7.17	18.43	3.83	18.23	5.48	14.06
	ODA-Education	0.00	0.00	0.00	0.00	0.00	0.02	0.01	0.01	1.06	2.32	7.34	9.32	10.75	13.44	15.02	13.82	26.90

Source: OECD database, 2008a.

Appendix F: Remittances as percentage of GDP

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cambodia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.09	0.09
Congo, Dem Rep. of the	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Rep. of	..	..	..	..	..	..	..	..	0.23	0.25	0.18	..	..	..	..	..	..	..
Côte d'Ivoire	..	..	..	..	..	0.31	0.30	0.26	0.28	0.31	0.31	0.37	0.38	0.39	0.37	0.34	0.39	0.43
El Salvador	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Eritrea	..	..	..	..	..	..	0.47	1.84	2.17	2.89	1.37	2.09	3.29	3.28	4.34	4.13	4.16	4.72
Ethiopia	..	..	..	..	..	..	..	..	..	..	..	0.14	0.13	0.13	0.14	0.15	0.14	0.09
Georgia	..	..	..	..	..	..	..	..	..	..	..	0.14	0.13	0.13	0.14	0.15	0.14	0.09
Guatemala	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guinea-Bissau	..	..	..	..	..	..	..	0.26	0.36	0.35	0.33	0.29	0.13	0.04	0.03	0.01	0.01	0
Haiti	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lebanon	..	4.04	4.84	4.05	3.15	8.18	8.53	7.59	7.60	7.59	7.25	8.65	6.53	5.52	4.95	4.78	4.69	5.23
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Namibia	..	..	..	..	..	..	..	..	..	..	1.50	1.84	1.77	2.32	1.69	0.92	0.95	2.46
Nicaragua	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	..	..	..	..	..	..	..	0.18	0.19	0.32	..	..	..	..	..	..	..	..
Rwanda	..	..	..	..	..	..	0.93	0.55	0.46	0.39	0.20	0.20	0.25	0.16	0.20	0.25	0.26	0.41
Sierra Leone	..	..	..	..	..	..	0	0.13	0.23	0.48	0.26	0.30	0.50	0.20	0.19	0.17	0.21	0.19
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tajikistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Note: Workers' remittances and compensation of employees, received (% of GDP).

Appendix F: Remittances as percentage of GDP - continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola	..	..	..	..	..	..	..	..	0.07	..	..	..	..	..	..	..	..	..	..
Azerbaijan	..	..	..	..	..	..	..	0.10	..	..	0.13	1.18	1.08	1.82	2.90	2.35	2.62	5.23	4.09
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	47.05	38.11	29.88	26.90	23.08	20.90	20.67	19.06	16.87
Burundi	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.01	0.01
Cambodia	..	..	..	..	0.45	0.39	0.39	0.35	0.34	0.35	3.85	3.01	3.31	3.34	3.27	2.97	3.34	3.19	4.10
Chad	0.07	0.07	..	..	..	0	0.08	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Dem Rep. of the	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Congo, Rep. of	0.18	..	..	..	..	..	..	0.19	0.31	0.22	0.10	0.51	0.31	0.43	0.03	0.36	0.35	0.19	0.15
Côte d'Ivoire	0.42	0.36	0.41	0.39	0.37	0.53	1.32	1.37	1.21	1.16	1.12	1.10	1.14	1.10	1.04	1.03	1.03	1.00	0.93
El Salvador	..	..	..	..	..	2.11	2.58	2.89	3.36	3.07	2.89	2.80	3.48	3.76	3.84	3.67	3.43	3.14	2.87
Eritrea	5.04	5.44	7.62	8.94	11.65	11.47	12.02	11.20	10.51	10.77	11.16	11.13	13.44	13.94	13.65	14.10	16.23	16.65	17.85
Ethiopia	0.10	0.05	0.04	0.07	..	..	..	..	..	..	0.40	0.58	0.47	..	..	..	..	..	..
Georgia	0.10	0.05	0.04	0.07	0.11	0.21	0.36	0.35	0.19	0.11	0.35	0.45	0.67	0.23	0.44	0.58	1.41	1.53	1.29
Guatemala	..	..	..	..	..	..	..	..	..	8.09	10.32	12.89	8.96	5.62	6.80	5.89	5.91	5.40	6.27
Guinea-Bissau	0.59	1.01	1.56	1.90	2.21	2.11	2.20	2.44	2.38	2.29	2.36	2.54	3.09	3.02	6.88	8.63	9.46	9.56	10.27
Haiti	1.22	0.47	0.41	0	0	0	..	..	0.74	0.74	0.97	0.89	0.93	5.02	8.94	9.78	10.37	9.30	9.20
Lebanon	5.55	4.89	2.13	2.31	4.16	4.39	1.81	3.75	5.01	7.94	8.65	10.00	15.02	17.04	19.37	27.51	24.27	22.85	21.51
Liberia	..	..	64.05	42.57	36.35	27.21	22.55	10.45	8.95	7.86	7.24	8.24	9.40	13.40	13.59	23.95	26.05	22.88	22.89
Mozambique	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Namibia	3.44	3.07	2.84	2.08	2.95	2.96	2.54	2.63	1.92	1.71	1.08	0.85	0.87	1.03	1.26	1.50	1.02	0.87	1.17
Nicaragua	..	..	0.55	0.56	0.56	0.53	0.46	0.46	0.40	0.36	0.32	0.30	0.26	0.28	0.22	0.27	0.28	0.29	0.26
Papua New Guinea	..	..	..	0	0.56	1.42	1.68	2.35	2.86	4.43	5.60	8.02	8.13	8.19	9.36	10.70	11.62	12.36	12.37
Rwanda	0.27	0.20	0.16	0.55	0.48	0.40	0.38	0.35	0.29	0.29	0.27	0.23	0.20	0.20	0.37	0.37	0.41	0.27	0.24
Sierra Leone	0.17	0.17	0.12	0.21	0.10	0.20	0.53	1.62	0.36	0.27	0.25	0.26	0.39	0.47	0.40	0.53	0.55	0.98	0.85
Solomon Islands	..	..	..	..	..	..	..	2.76	2.65	0.71	2.97	3.31	1.10	0.87	2.35	2.63	2.31	0.16	2.29
Tajikistan	..	..	..	..	..	..	..	..	..	..	..	0.60	0.67	0.73	0.88	1.73	3.39	2.33	6.07
Uganda	..	..	..	..	..	..	..	..	..	..	..	..	..	..	6.38	9.39	12.14	20.16	36.24

Source: World Bank, 2007a.

Appendix G: Population

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Afghanistan	12595810	12939240	13295640	13653940	13999590	14319300	14619470	14895990	15113620	15226920	15209140	15053510	14787520	14462980
Angola	6082639	6212775	6349403	6493888	6647845	6812732	6987633	7172945	7372798	7592522	7835050	8104066	8396338	8699537
Azerbaijan	5171999	5281236	5387374	5490572	5591016	5688998	5786880	5882440	5976760	6075000	6166000	6265000	6362000	6461000
Bosnia and Herzegovina	3564388	3599884	3636929	3674637	3711661	3747108	3780558	3812557	3844330	3877600	3913538	3949749	3985026	4022797
Burundi	3513500	3549957	3577488	3602675	3634686	3680401	3741568	3817060	3907278	4011826	4129999	4261746	4406225	4560656
Cambodia	6937995	7036636	7111449	7153015	7149822	7097801	6987356	6831937	6678671	6590896	6612831	6763458	7026985	7369669
Chad	3756977	3840011	3925284	4011886	4098646	4184897	4270543	4356377	4443790	4534683	4630683	4732030	4839112	4953861
Congo, Dem. Rep. of the	20542540	21173100	21818750	22485350	23181230	23911810	24681310	25486510	26316600	27156420	27996080	28833610	29675860	30532870
Congo, Rep. of	1322617	1363567	1406270	1450609	1496422	1543608	1592143	1642128	1693752	1747271	1802888	1860688	1920684	1982913
Côte d'Ivoire	5310134	5540929	5780727	6032972	6302334	6592197	6902843	7233232	7583643	7954054	8343753	8752988	9179794	9618396
El Salvador	3598235	3709373	3815012	3916867	4017807	4119533	4223532	4328029	4427673	4515193	4585928	4637901	4674318	4702161
Eritrea	1847002	1896031	1946217	1998637	2054730	2115399	2181169	2251375	2324260	2397364	2468904	2537386	2603091	2668072
Ethiopia	28937000	29701270	30479140	31275420	32098490	32954000	33841040	34759760	35711360	36696850	37717000	38772370	39863320	40990000
Georgia	4707498	4749640	4791478	4832401	4871430	4907998	4941722	4973248	5004248	5036987	5073001	5111453	5151288	5193334
Guatemala	5417625	5568242	5723814	5882747	6042855	6202654	6361360	6519639	6679223	6842625	7011610	7186927	7367889	7553096
Guinea-Bissau	583871	592670	602715	614985	630775	650842	675797	704924	736036	766116	793033	816005	835775	853625
Haiti	4519706	4595512	4671582	4749566	4831699	4919671	5013934	5114284	5220914	5333837	5452940	5577732	5707821	5843160
Lebanon	2442746	2505270	2572396	2638350	2695171	2737456	2762748	2773583	2775682	2777378	2784713	2800813	2824176	2850773
Liberia	1386544	1427168	1469158	1512670	1557914	1605036	1653086	1701798	1752694	1807881	1868259	1935430	2007278	2076520
Mozambique	9384289	9599946	9822400	10055260	10303360	10569260	10852690	11149490	11453210	11755260	12048020	12337380	12622290	12880960
Namibia	771087	794132	818710	843818	868077	890566	911190	930489	948994	967504	986807	1006600	1027259	1051041
Nicaragua	2228011	2301669	2377986	2456881	2538213	2621821	2707576	2795288	2884632	2975213	3066660	3159102	3252366	3345452
Papua New Guinea	2553712	2612058	2672093	2734154	2798718	2866100	2936437	3009543	3085010	3162263	3240879	3320902	3402486	3485466
Rwanda	3775833	3897804	4019579	4143397	4272739	4410039	4556134	4709922	4869611	5032561	5196987	5354581	5504589	5660952
Sierra Leone	2697042	2745394	2793689	2842477	2892561	2944551	2998905	3055616	3114312	3174390	3235584	3296216	3356637	3420866
Solomon Islands	160670	166447	172657	179202	185942	192778	199666	206638	213771	221174	228921	237034	245465	254140
Sri Lanka	12514000	12608000	12861000	13091000	13284000	13499000	13717000	13942000	14188000	13142000	14746000	15010000	15196000	15417000
Tajikistan	2941500	3036693	3136061	3238091	3340563	3441993	3541941	3641300	3741551	3844813	3952695	4064666	4180297	4301295
Uganda	9277681	9568859	9857853	10149400	10450330	10765830	11098620	11448240	11813020	12189940	12577500	12973860	13381900	13810400

Appendix G: Population - continued

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Afghanistan	14151330	13911950	13742350	13648470	13705630	14006500	..	..	..	..	..	..	..	..
Angola	8996735	9276484	9532132	9768854	10001370	10250920	10532120	10851920	11203770	11572520	11936190	12279710	12597370	12896500
Azerbaijan	6563000	6669000	6779000	6893000	7004000	7085000	7159000	7271000	7382000	7495000	7597000	7685000	7763000	7838000
Bosnia and Herzegovina	4067771	4121597	4192050	4274186	4342098	4360763	4308198	4169364	3959824	3725502	3530612	3420072	3411903	3489040
Burundi	4721358	4884989	5050716	5217064	5379296	5531718	5670250	5794873	5906754	6004940	6088707	6159060	6214558	6259604
Cambodia	7740280	8100637	8440409	8768446	9088375	9409476	9737900	10072510	10407200	10737830	11059220	11367790	11662060	11943400
Chad	5078598	5214874	5363858	5524995	5695946	5873302	6054641	6239599	6429170	6623983	6825119	7033631	7248254	7469206
Congo, Dem. Rep. of the	31418920	32345960	33306800	34301250	35355540	36503750	37764440	39161670	40674010	42219620	43686350	44998560	46123160	47097460
Congo, Rep. of	2047395	2114155	2183309	2254926	2328931	2405201	2483694	2564256	2647042	2732682	2822020	2915594	3013758	3116173
Côte d'Ivoire	10061260	10502610	10939750	11372790	11802330	12230140	12657370	13082340	13503370	13921590	14338730	14755310	15173660	15591420
El Salvador	4731265	4769072	4817686	4876060	4944599	5022826	5110176	5207376	5314449	5429057	5547956	5668606	5790090	5912415
Eritrea	2735386	2806750	2884713	2967424	3047077	3112999	3158478	3180311	3183540	3179894	3185765	3213308	3265771	3340643
Ethiopia	42152320	43350000	44658930	46087060	47643230	49337260	51180000	52954000	54790000	53297000	54890000	56530000	58234000	59750000
Georgia	5238640	5287004	5340735	5397110	5444906	5469181	5460000	5412510	5331840	5230439	5126259	5032565	4953616	4886454
Guatemala	7740461	7928555	8116966	8306424	8498014	8693328	8893558	9099377	9310636	9526771	9746842	9970367	10197100	10427890
Guinea-Bissau	871547	891053	912353	935127	959729	986475	1015528	1047264	1081568	1117495	1153720	1189331	1223935	1257923
Haiti	5983738	6129050	6279678	6434178	6587597	6733461	6867328	6987073	7094433	7193645	7291018	7391265	7495652	7603156
Lebanon	2874372	2891183	2898338	2899270	2903925	2925940	2974323	3053488	3158387	3276940	3391893	3490743	3569304	3631100
Liberia	2133363	2171142	2189239	2191156	2179818	2159793	2136014	2104848	2069227	2048282	2067051	2141461	2282583	2480401
Mozambique	13084960	13218520	13265140	13242670	13211570	13254700	13429410	13759960	14223360	14771520	15332600	15853740	16320600	16747150
Namibia	1080863	1118611	1165340	1219953	1279500	1339774	1397674	1451898	1503056	1552238	1601331	1651547	1703213	1755284
Nicaragua	3437083	3526494	3612903	3696904	3780775	3867687	3959795	4058182	4161854	4268380	4374219	4476892	4570873	4662423
Papua New Guinea	3569666	3655076	3741395	3828950	3919100	4013672	4113895	4220171	4331883	4447964	4566841	4687236	4808803	4931464
Rwanda	5843197	6060803	6337626	6659430	6953181	7119430	7096089	6838378	6391335	5891715	5530285	5439079	5673818	6180030
Sierra Leone	3494398	3580289	3682157	3796583	3911159	4008898	4078436	4115782	4127100	4123879	4122772	4136745	4166817	4211630
Solomon Islands	262950	271818	280732	289707	298729	307782	316868	325962	335087	344351	353899	363833	374186	384924
Sri Lanka	15603000	15841000	16127000	16373000	16599000	16825000	17017000	17267000	17426000	17646000	17891000	18136000	18336000	18567000
Tajikistan	4429813	4566787	4713549	4867986	5023354	5170562	5303152	5418488	5518521	5607080	5690196	5772392	5855038	5937150
Uganda	14271070	14771530	15315820	15899430	16511040	17134480	17757960	18379620	19002950	19628220	20257130	20892270	21533240	22183260

cont'd

Appendix G: Population - continued

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan	..	..	..	..	..	..	..	..	..
Angola	13190940	13500820	13840640	14214830	14618780	15046910	15490050	15941390	16391380
Azerbaijan	7913000	7983000	8048535	8111144	8171893	8234040	8306400	8388000	8474402
Bosnia and Herzegovina	3618356	3749856	3847126	3900366	3920808	3918175	3909479	3907074	3908458
Burundi	6308326	6379308	6486071	6633320	6818131	7036675	7281837	7547515	7833158
Cambodia	12214740	12480530	12744380	13006990	13268490	13531280	13798120	14071010	14350860
Chad	7700709	7948375	8215517	8505192	8814445	9133294	9447944	9748931	9987027
Congo, Dem. Rep. of the	48003160	48958870	50052100	51308060	52705820	54230860	55852890	57548740	59338370
Congo, Rep. of	3221849	3329385	3437797	3546997	3657416	3769271	3882947	3998904	4105128
Côte d'Ivoire	15998840	16382820	16734950	17051020	17336380	17603910	17871900	18153870	18467840
El Salvador	6035093	6157863	6280482	6402452	6523374	6643296	6762439	6880951	6991736
Eritrea	3437122	3552543	3684296	3833443	3999407	4175647	4353526	4526722	4692115
Ethiopia	61266000	62782000	64298000	65777990	67217840	68613470	69960840	71256000	72711510
Georgia	4828414	4774219	4720061	4666032	4614154	4564661	4517981	4474404	4436486
Guatemala	10664740	10910280	11166380	11433500	11711050	11998470	12294790	12599060	12902480
Guinea-Bissau	1292118	1327736	1365650	1406179	1449039	1493783	1539712	1586344	1632865
Haiti	7713461	7825580	7938791	8053271	8169525	8287465	8406941	8527777	8646850
Lebanon	3680720	3725884	3772283	3820719	3869218	3917538	3964891	4010740	4055000
Liberia	2703854	2909154	3065441	3160769	3206295	3222484	3240578	3283267	3380128
Mozambique	17142740	17525980	17910520	18296160	18676460	19052200	19423920	19792300	20143920
Namibia	1805994	1852937	1894436	1929929	1960077	1985964	2009251	2031252	2050821
Nicaragua	4751322	4837348	4920286	4991475	5050368	5096507	5122841	5149311	5249476
Papua New Guinea	5054507	5177172	5298867	5419232	5538159	5655675	5771947	5887138	5995265
Rwanda	6844688	7500011	8024511	8383013	8613903	8757694	8882365	9037690	9244288
Sierra Leone	4278632	4376232	4508987	4682648	4892425	5119179	5336449	5525478	5641046
Solomon Islands	395986	407281	418733	430324	442052	453886	465793	477742	489228
Sri Lanka	18774000	19043000	19359000	18732000	19007000	19253000	19462000	19625380	19771320
Tajikistan	6018196	6096955	6172835	6245969	6317813	6390641	6467377	6550213	6652000
Uganda	22853440	23558220	24308740	25110890	25964900	26869410	27820560	28816230	29874370

Source: World Bank, 2007a.

Appendix H: Inflation

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola	46.71	1.39	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	85.27	299.10	1379.48
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	1129.70
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	1.20	12.18	5.85	8.16	14.30	3.82	1.67	7.11	4.49	11.67	6.99	9.01	5.33	9.71
Cambodia	..	..	..	..	..	..	..	-31.25	23.00	63.80	141.80	191.00	75.00	114.32
Chad	8.64	8.13	6.43	7.88	20.30	5.07	-13.05	-2.73	14.90	-4.90	0.50	4.20	-3.80	-10.87
Congo, Dem. Rep. of the	40.04	34.88	37.07	76.73	52.63	23.46	46.73	90.37	82.75	104.07	81.30	2154.44	4129.17	1986.90
Congo, Rep. of	7.30	0.78	3.45	3.47	3.49	3.51	3.52	3.54	-13.01	-9.58	0.34	9.36	-3.16	-4.10
Côte d'Ivoire	8.81	8.68	7.39	5.88	4.28	1.75	6.84	6.98	6.94	0.99	-0.66	1.58	4.22	2.13
El Salvador	17.36	14.82	11.70	13.12	11.71	22.32	31.95	24.85	19.77	17.65	24.00	14.50	11.22	18.50
Eritrea	12.44	1.94	7.77	3.57	-0.33	18.40	5.55	-9.15	2.21	9.63	5.21	20.87	..	4.79
Ethiopia	12.44	1.94	7.77	3.57	-0.33	18.40	5.55	-9.15	2.21	9.63	5.21	20.87	21.02	9.99
Georgia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guatemala	10.67	11.40	4.90	6.72	3.21	19.18	32.78	10.85	10.30	12.99	37.98	35.11	10.24	13.36
Guinea-Bissau	64.76	41.94	16.54	23.31	64.86	112.71	26.55	119.59	60.31	80.79	33.00	57.60	69.44	48.23
Haiti	-95.44	10.86	7.36	10.24	6.40	10.65	3.28	-11.45	4.11	6.92	21.28	15.42	19.36	22.56
Lebanon	23.90	19.30	18.60	7.20	17.60	69.40	95.40	487.20	155.00	72.20	68.90	50.12	99.85	24.74
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	2.00	9.52	17.70	28.20	30.04	30.79	40.49	164.12	58.51	42.08	43.72	33.26	38.78	42.26
Namibia	..	..	..	..	..	..	..	..	..	..	..	11.90	17.73	8.53
Nicaragua	35.14	23.80	28.50	33.60	141.30	571.40	885.20	13109.50	4775.20	7428.70	3004.10	116.60	21.90	13.50
Papua New Guinea	12.06	8.05	5.54	7.90	7.42	3.71	5.45	3.34	5.45	4.48	6.95	6.97	4.31	4.97
Rwanda	7.20	6.44	12.61	6.63	5.36	1.73	-1.10	4.15	2.91	1.04	4.20	19.60	9.50	14.89
Sierra Leone	12.87	23.37	26.89	68.53	66.58	76.58	80.87	178.70	34.29	60.80	110.95	102.70	65.50	22.20
Solomon Islands	8.25	13.14	13.00	6.95	10.92	9.41	13.10	11.49	16.81	14.94	8.70	15.00	10.80	9.20
Tajikistan	..	..	..	..	..	..	..	..	..	..	..	..	..	2600.72
Timor-Leste	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	99.20	100.00	100.00	150.00	16.71	100.00	143.80	215.40	166.70	130.80	45.40	20.82	42.25	29.97

cont'd

Appendix H: Inflation- continued

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Afghanistan	..	..	..	..	..	..	..	..	..	24.07	13.25	12.32	5.11	13.03
Angola	949.77	2672.23	4146.01	221.49	107.43	248.25	325.03	152.59	108.89	98.34	43.56	22.96	13.31	12.25
Azerbaijan	1664.00	412.82	19.80	3.67	-0.77	-8.53	1.81	1.55	2.77	2.23	6.71	9.68	8.37	16.60
Bosnia and Herzegovina	..	..	..	5.63	-0.32	2.91	5.03	3.21	0.31	0.55	0.28	3.58	7.47	1.33
Burundi	14.71	19.36	26.42	31.12	12.53	3.38	24.31	9.26	-1.33	10.69	8.00	13.39	2.83	8.39
Cambodia	10.57	9.95	7.15	7.96	14.78	4.03	-0.79	0.22	3.30	1.15	3.79	5.86	4.71	5.90
Chad	41.27	5.36	11.33	5.57	4.26	-8.45	3.82	12.43	5.19	-1.75	-5.36	7.89	7.89	-8.81
Congo, Dem. Rep. of the	23773.10	541.80	617.00	199.00	29.15	284.90	550.00	357.28	25.32	12.82	4.00	21.39	13.21	16.71
Congo, Rep. of	46.40	6.33	7.38	13.09	1.84	3.08	0.42	0.80	3.07	1.55	3.78	2.47	4.66	2.60
Côte d'Ivoire	25.96	14.10	2.70	6.30	5.22	0.92	-0.38	4.25	5.08	1.30	0.63	4.18	5.00	2.08
El Salvador	10.60	9.93	9.79	4.42	2.62	0.52	2.27	3.75	1.87	2.12	4.45	4.69	4.04	3.86
Eritrea	13.15	11.98	10.29	3.74	9.47	8.40	19.95	14.63	16.88	22.67	25.11	12.51	15.06	9.28
Ethiopia	1.17	13.35	0.92	-6.42	3.60	4.77	6.16	-5.21	-7.22	15.06	8.62	6.84	12.26	17.01
Georgia	..	162.72	39.33	6.99	3.55	19.13	4.04	4.69	5.58	4.79	5.67	8.26	9.16	9.20
Guatemala	12.51	8.41	11.06	9.23	6.61	5.21	5.98	7.29	8.10	5.61	7.58	9.11	6.56	6.82
Guinea-Bissau	15.18	45.37	50.73	49.07	8.01	-2.10	8.61	3.25	3.28	-3.52	0.79	3.43	1.96	3.76
Haiti	42.56	30.20	21.90	16.20	12.70	8.10	11.50	16.50	9.30	26.70	28.30	16.80	14.23	9.05
Lebanon	8.24	10.28	8.88	7.75	4.55	0.24	-0.36	-0.37	1.76	1.27	1.67	-0.72	5.57	4.06
Liberia	..	..	..	..	..	..	5.26	12.15	14.16	10.33	3.56	6.95	7.24	11.20
Mozambique	63.12	54.43	48.49	7.36	1.49	2.87	12.71	9.06	16.77	13.46	12.63	6.43	13.24	7.89
Namibia	10.76	10.01	8.01	8.83	6.21	8.58	9.27	9.27	11.28	7.15	4.15	2.26	5.05	6.70
Nicaragua	3.70	11.10	12.10	7.30	18.50	7.20	9.90	4.70	4.00	6.48	8.47	9.60	9.14	11.08
Papua New Guinea	2.85	17.28	11.63	3.94	13.59	14.93	15.60	9.29	11.80	14.72	2.12	1.74	2.29	1.72
Rwanda	47.35	48.25	13.43	11.69	6.84	-2.42	3.90	3.37	1.98	7.45	11.95	9.15	8.85	9.40
Sierra Leone	24.20	25.99	23.14	14.56	35.99	34.09	-0.92	2.57	-3.66	7.55	14.25	12.05	9.54	11.65
Solomon Islands	13.10	9.80	11.80	8.01	12.31	8.02	6.89	7.65	9.35	9.96	6.93	7.34	8.10	6.30
Tajikistan	350.36	612.48	418.47	87.96	43.18	27.45	32.85	38.59	12.23	16.36	7.21	7.28	9.97	13.17
Timor-Leste	..	..	..	..	..	..	63.58	3.56	4.76	7.03	3.16	1.82	4.15	7.77
Uganda	5.85	6.79	7.52	7.73	5.83	0.21	5.84	4.50	-2.02	5.68	5.01	7.98	6.60	6.80

Source: IMF, 2007a.

Appendix I: CPIA ratings

	Macro. Mgt.	Fiscal Policy	Debt Policy	Average 'Economic management' cluster	Trade	Financial Sector	Business Regulatory Environ.	Average 'Structural Policies' cluster
Afghanistan	3.5	3.0	3.0	**3.2**	2.5	2.0	2.5	**2.3**
Angola	3.0	3.0	3.0	**3.0**	4.0	2.5	2.0	**2.8**
Azerbaijan	4.5	4.5	5.0	**4.7**	4.0	3.0	3.5	**3.5**
Bosnia and Herzegovina	4.5	3.5	4.0	**4.0**	3.5	4.0	4.0	**3.8**
Burundi	3.5	3.5	2.5	**3.2**	3.5	3.0	2.5	**3.0**
Cambodia	4.5	3.0	3.5	**3.7**	3.5	2.5	3.5	**3.2**
Chad	3.0	2.5	2.5	**2.7**	3.0	3.0	2.5	**2.8**
Congo, Dem. Rep. of the	3.5	3.5	2.5	**3.2**	4.0	2.0	3.0	**3.0**
Congo, Rep. of	3.0	2.0	2.5	**2.5**	3.5	2.5	2.5	**2.8**
Côte d'Ivoire	3.0	2.5	1.5	**2.3**	3.5	3.0	3.0	**3.2**
Eritrea	2.0	2.0	2.5	**2.2**	1.5	2.0	2.0	**1.8**
Ethiopia	3.0	4.0	3.5	**3.5**	3.0	3.0	3.5	**3.2**
Georgia	4.5	4.5	5.0	**4.7**	5.5	3.5	5.0	**4.7**
Guinea-Bissau	2.0	2.5	1.5	**2.0**	4.0	3.0	2.5	**3.2**
Haiti	3.5	3.5	2.5	**3.2**	4.0	3.0	2.5	**3.2**
Mozambique	4.0	4.0	4.5	**4.2**	4.5	3.5	3.0	**3.7**
Nicaragua	4.0	4.0	4.5	**4.2**	4.5	3.5	3.5	**3.8**
Papua New Guinea	4.5	3.5	4.5	**4.2**	4.5	3.0	3.0	**3.5**
Rwanda	4.0	4.0	3.5	**3.8**	3.5	3.5	3.5	**3.5**
Sierra Leone	4.0	3.5	3.5	**3.7**	3.5	3.0	2.5	**3.0**
Solomon Islands	3.5	3.0	2.5	**3.0**	3.0	3.0	2.5	**2.8**
Tajikistan	4.0	4.0	3.0	**3.7**	4.0	3.0	3.5	**3.5**
Uganda	4.5	4.5	4.5	**4.5**	4.0	3.5	4.0	**3.8**

cont'd

Appendix I: CPIA ratings - continued

	Gender Equality	Equity of Public Resource Use	Building Human Resources	Social Protection & Labor	Pol. & Instit. for Environ. Sustain.	**Average 'Policies for Social Inclusion /Equity' cluster**	Property Rights & Rule-based Govern.	Quality of Budgetary and Financial Mgt.	Efficiency of Revenue Mobil.	Quality of Public Admin.	Transpar., Account. & Corrup. in Pub. Sec.	**Average 'Public Sector Management and Institutions' cluster**	**IRAI**
Afghanistan	2.0	2.5	3.0	2.0	2.0	**2.3**	1.5	3.0	2.5	2.0	2.0	**2.2**	**2.5**
Angola	3.0	2.5	2.5	2.5	3.0	**2.7**	2.0	2.5	2.5	2.5	2.5	**2.4**	**2.7**
Azerbaijan	4.0	4.0	3.5	4.0	3.0	**3.7**	3.0	4.0	3.5	3.0	2.5	**3.2**	**3.8**
Bosnia and Herzegovina	4.5	3.0	3.5	3.5	3.5	**3.6**	3.0	3.5	4.0	3.0	3.0	**3.3**	**3.7**
Burundi	4.0	3.5	3.0	3.0	3.0	**3.3**	2.5	3.0	3.0	2.5	2.0	**2.6**	**3.0**
Cambodia	4.0	3.0	3.5	3.0	3.0	**3.3**	2.5	3.0	3.0	2.5	2.5	**2.7**	**3.2**
Chad	2.5	3.0	2.5	2.5	2.5	**2.6**	2.0	2.0	2.5	2.5	2.0	**2.2**	**2.6**
Congo, Dem. Rep. of the	3.0	3.0	3.0	3.0	2.5	**2.9**	2.0	2.5	2.5	2.5	2.0	**2.3**	**2.8**
Congo, Rep. of	3.0	2.5	3.0	2.5	2.5	**2.7**	2.5	2.5	3.0	2.5	2.5	**2.6**	**2.7**
Côte d'Ivoire	2.5	1.5	2.5	2.5	2.5	**2.3**	2.0	2.0	4.0	2.0	2.0	**2.4**	**2.6**
Eritrea	3.5	3.0	3.5	3.0	2.0	**3.0**	2.5	2.5	3.5	3.0	2.0	**2.7**	**2.4**
Ethiopia	3.0	4.5	4.0	3.5	3.5	**3.7**	3.0	4.0	4.0	3.0	2.5	**3.3**	**3.4**
Georgia	4.5	4.5	4.0	4.0	3.0	**4.0**	3.5	4.0	4.5	3.5	3.0	**3.7**	**4.3**
Guinea-Bissau	2.5	3.0	2.5	2.5	2.5	**2.6**	2.5	2.5	3.0	2.5	2.5	**2.6**	**2.6**
Haiti	3.0	3.0	2.5	2.5	2.5	**2.7**	2.0	3.0	2.5	2.5	2.0	**2.4**	**2.9**
Mozambique	3.5	3.5	3.5	3.0	3.0	**3.3**	3.0	3.5	4.0	3.0	3.0	**3.3**	**3.6**
Nicaragua	3.5	4.0	3.5	3.5	3.5	**3.6**	3.0	4.0	4.0	3.0	3.0	**3.4**	**3.8**
Papua New Guinea	2.5	3.5	2.5	3.0	2.0	**2.7**	2.0	3.5	3.5	2.5	3.0	**2.9**	**3.3**
Rwanda	3.5	4.5	4.5	3.5	3.0	**3.8**	3.0	4.0	3.5	3.5	3.5	**3.5**	**3.7**
Sierra Leone	3.0	3.0	3.5	3.0	2.0	**2.9**	2.5	3.5	2.5	3.0	2.5	**2.8**	**3.1**
Solomon Islands	3.0	2.5	3.0	2.5	2.0	**2.6**	2.5	2.5	2.5	2.0	3.0	**2.5**	**2.7**
Tajikistan	3.5	3.5	3.0	3.5	2.5	**3.2**	2.5	3.0	3.0	2.5	2.0	**2.6**	**3.2**
Uganda	3.5	4.5	4.0	3.5	4.0	**3.9**	3.5	4.0	3.0	3.0	3.0	**3.3**	**3.9**

Source: World Bank, 2007e.

Appendix J: Exports

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cambodia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chad	192	204	176	181	133	151	196	196	189	177	160	144	78	190	213	170	185	207	233	245
Congo, Dem. Rep. of the	498	555	592	648	598	561	525	524	655	549	667	577	518	707	1191	1272	1196	1291	1315	1236
Congo, Rep. of	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Côte d'Ivoire	1255	1329	1487	1457	1672	1605	1793	1651	1746	1786	2872	2971	3061	2910	3219	3122	3113	3055	2999	3477
Croatia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
El Salvador	1071	1154	1361	1307	1379	1507	1379	1225	1461	1940	1602	1289	1091	1316	1248	1183	1029	1155	1049	907
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	..	..	..	..	..	..	..	..	..	..	..	478	448	476	528	473	579	537	549	648
Georgia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guatemala	1487	1549	1771	1941	2070	2138	2279	2421	2419	2661	2799	2395	2193	1954	1891	1951	1678	1779	1880	2129
Guinea-Bissau	9	9	10	14	12	19	16	19	17	17	22	15	14	13	12	9	10	12	15	13
Haiti	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lebanon	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	..	..	..	..	..	..	..	..	..	..	383	319	319	217	174	158	144	155	170	197
Namibia	..	..	..	..	..	..	..	..	..	..	1096	989	960	851	867	1092	1221	1109	1058	1072
Nicaragua	403	418	548	543	551	592	615	598	652	746	443	509	468	501	397	350	289	282	279	366
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Rwanda	75	68	73	106	112	87	147	94	136	184	171	173	177	160	183	231	234	260	207	217
Sierra Leone	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tajikistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	..	..	..	..	..	..	..	..	..	..	..	..	198	184	205	198	201	198	206	218

cont'd

Note: Exports of goods and services (constant 2000 US$), measured in millions of dollars.

Appendix J: Exports - continued

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Azerbaijan	..	..	..	..	1583	1290	1285	1262	1661	1911	2059	2666	3112	2976	3514	4253	5497
Bosnia and Herzegovina	..	..	..	..	202	354	773	1280	1577	1516	1580	1592	1677	1886	1986	2306	2622
Burundi	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Cambodia	..	..	..	343	596	857	708	963	935	1398	1821	2126	2405	2674	3429	3984	4754
Chad	215	207	199	213	194	267	218	244	260	256	234	227	213	477	1312	1525	1643
Congo, Dem. Rep. of the	1224	1015	591	538	498	600	692	539	669	1000	964	983	1062	1065	1279	1391	1425
Congo, Rep. of	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Côte d'Ivoire	3847	3547	3539	3164	3083	3523	3637	3928	3960	4237	4211	5433	6215	5755	6428	6583	6477
Croatia	..	..	..	..	..	6279	6894	7418	7706	7758	8686	9390	9508	10595	11200	11712	12518
El Salvador	1123	1118	1190	1549	1680	1914	2080	2707	2876	3081	3599	3591	3807	3984	4211	4372	4728
Eritrea	..	..	83	141	136	113	180	186	111	67	96	131	127	86	80	80	79
Ethiopia	579	476	376	498	504	502	634	765	704	761	984	1032	1225	1351	1831	1935	1915
Georgia	..	..	..	..	354	321	376	487	504	497	703	695	735	770	805	844	981
Guatemala	2416	2196	2403	2563	2649	2982	3241	3503	3587	3753	3896	3740	3526	3481	3710	3669	3909
Guinea-Bissau	17	22	11	17	34	26	25	53	33	55	68	71	71	76	79	83	88
Haiti	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lebanon	..	..	..	..	912	1358	1848	2043	2106	2228	2329	2775	3180	3400	4279	4311	4678
Liberia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mozambique	208	267	254	259	347	372	477	518	572	564	744	1127	1364	1776	2008	2139	2311
Namibia	954	1229	1307	1429	1383	1515	1557	1515	1504	1571	1558	1525	1739	2139	2051	1962	2238
Nicaragua	437	371	446	465	433	529	615	703	744	836	940	1009	974	1063	1245	1363	1507
Papua New Guinea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Rwanda	210	194	177	146	57	62	88	114	116	138	151	264	279	274	304	297	388
Sierra Leone	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Tajikistan	..	..	1024	833	859	793	771	868	803	827	850	727	782	1013	1241	1277	1359
Uganda	229	216	250	239	314	404	514	665	566	715	663	757	844	911	968	1011	1051

Source: World Bank, 2007a.

Appendix K: FDI flows

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Afghanistan																
Angola						4.1	3.7	1.6	1.6	2.2	-3.3	5.4	5.0	5.7	4.2	9.4
Azerbaijan											0.0	0.2	0.0	0.0	0.3	10.8
Bosnia and Herzegovina															0.0	0.0
Burundi	0.5	1.1	0.1	0.3	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.2
Cambodia													1.7	2.1	2.5	4.4
Chad	0.0	0.0	0.0	0.0	1.0	5.2	2.6	0.7	0.1	1.3	0.5	0.2	0.1	1.0	2.3	2.3
Congo, Dem. Rep. of the	0.3	0.2	0.3	0.5	0.4	0.2	0.3	0.6	0.1	-0.1	0.2	0.4	0.0	2.7	0.1	2.2
Congo, Rep. of	2.3	1.5	1.6	2.7	1.6	0.6	1.2	1.9	0.4	-0.3	-0.5	0.5	0.0	0.4	-0.1	5.9
Côte d'Ivoire	0.9	0.4	0.6	0.5	0.3	0.4	0.8	0.9	0.5	0.2	0.4	0.2	-2.1	0.8	0.9	1.9
El Salvador	0.2	-0.2	0.0	0.8	0.3	0.3	0.6	0.5	0.4	0.3	0.0	0.5	0.3	0.2	0.0	0.4
Eritrea																
Ethiopia		0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.3	0.2
Georgia														0.0	0.3	0.2
Guatemala	1.4	1.5	0.9	0.5	0.4	0.6	0.8	2.1	4.2	0.9	0.6	1.0	0.9	1.3	0.5	0.5
Guinea-Bissau					1.7	1.0	0.6	0.1	0.4	0.2	0.8	0.8	2.6	1.4	0.2	0.0
Haiti	0.9	0.6	0.5	0.5	0.2	0.2	0.2	0.2	0.5	0.4	0.3	-0.1	-0.1	-0.2	-0.1	0.3
Lebanon									0.0	0.1	0.2	0.0	0.3	0.1	0.2	0.3
Liberia	7.5	30.8	3.6	5.4	3.9	-1.7	-1.8	4.0	27.9	83.4	58.6	2.4	-4.9	-33.4	13.1	3.4
Mozambique	0.1	0.0	0.1	0.1	-0.1	0.0	0.0	0.3	0.2	0.1	0.4	0.8	1.3	1.6	1.6	2.0
Namibia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1				
Nicaragua	3.0	3.4	3.6	5.4	4.5	3.4	3.4	3.0	4.2	5.7	4.8	3.1	2.4	1.2	1.1	9.9
Papua New Guinea	1.5	1.5	1.5	0.7	0.9	0.9	0.9	0.8	0.9	0.6	0.3	0.2	0.1	0.3	0.0	0.2
Rwanda																
Sierra Leone	-1.7	0.7	0.4	0.2	0.5	-3.6	-28.6	5.6	-2.2	2.4	5.0	1.0	-0.8	-1.0	-0.3	0.8
Solomon Islands	2.1	0.2	0.8	0.4	1.1	0.4	2.1	6.4	0.8	5.1	4.9	6.2	5.4	9.0	0.7	0.6
Tajikistan													0.5	0.5	0.9	0.8
Uganda	0.3		0.1			-0.1			0.1	0.0	-0.1	0.0	0.1	1.7	2.2	2.1

cont'd

Note: Foreign direct investment, net inflows as a % of GDP.

Appendix K: FDI flows - continued

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Afghanistan										
Angola	2.4	5.4	17.3	40.2	9.6	24.0	14.6	25.1	7.3	-4.0
Azerbaijan	19.7	28.1	23.0	11.1	2.5	4.0	22.3	45.1	41.0	12.7
Bosnia and Herzegovina	-0.1	0.0	1.6	3.8	2.9	2.2	4.4	4.9	6.6	3.0
Burundi	0.0	0.0	0.2	0.0	1.6	0.0	0.0	0.0	0.0	0.1
Cambodia	8.4	5.9	7.8	6.6	4.0	3.8	3.4	1.8	2.5	6.1
Chad	2.5	2.9	1.2	1.7	8.3	26.9	46.5	26.2	10.8	12.0
Congo, Dem. Rep. of the	1.3	1.3	0.5	11.1	3.9	1.6	2.5	5.7	10.2	5.7
Congo, Rep. of	2.9	3.4	1.7	22.9	5.2	2.8	11.0	9.1	-0.2	12.1
Côte d'Ivoire	2.2	3.5	3.0	2.6	2.3	2.6	1.9	1.2	1.8	1.7
El Salvador	0.0	0.5	9.2	1.7	1.3	2.0	3.3	0.9	2.4	3.0
Eritrea	5.3	6.0	19.9	12.1	4.4	1.8	3.2	3.8	-1.2	1.2
Ethiopia	0.3	3.4	3.4	0.9	1.7	4.4	3.4	5.8	5.7	2.3
Georgia	1.7	6.9	7.3	2.9	4.3	3.4	4.9	8.5	9.7	7.0
Guatemala	0.5	0.5	3.5	0.8	1.2	2.2	0.5	0.5	0.6	0.7
Guinea-Bissau	0.4	4.3	2.1	0.3	0.3	0.2	1.8	1.7	0.6	3.3
Haiti	0.1	0.1	0.3	0.7	0.3	0.1	0.2	0.3	0.2	0.2
Lebanon	0.6	11.5	6.7	5.1	5.7	8.4	7.1	14.4	8.8	12.0
Liberia	-82.9	72.3	52.9	58.0	3.7	1.5	0.5	90.7	45.0	36.7
Mozambique	2.6	1.9	5.5	9.6	3.7	6.9	8.5	7.0	4.1	1.6
Namibia	0.4	0.5	0.2	0.1	0.0	0.4	-0.1	0.3	0.0	0.0
Nicaragua	2.1	0.6	2.9	8.7	2.8	2.0	0.6	2.9	1.4	0.7
Papua New Guinea	0.2	0.1	0.4	0.1	0.5	0.3	0.2	0.3	0.4	0.4
Rwanda										
Sierra Leone	0.1	0.2	0.0	0.1	6.2	1.2	1.1	0.9	5.7	4.8
Solomon Islands	1.7	8.7	3.1	3.0	0.5	-4.2	-0.6	-0.9	0.4	-0.3
Tajikistan	1.7	2.0	2.3	0.6	2.4	0.9	2.9	2.0	13.1	2.4
Uganda	2.0	2.8	3.2	2.3	2.7	2.7	3.2	3.2	3.3	2.9

Source: World Bank, 2007a.

Appendix L: Trade competitiveness index

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Afghanistan																		
Angola																		
Azerbaijan																		
Bosnia and Herzegovina																		
Burundi	13	13	12	12	13	93	91	83	90	109	99	116	127	136	125	129	129	120
Cambodia																		
Chad														123	130	136	153	158
Congo, Dem. Rep. of the	68	69	72	70	80	92	104	146	196	167	134	124	138	111	64	60	65	55
Congo, Rep. of											120	99	91	83	80	86	118	131
Côte d'Ivoire	86	82	80	85	82	91	91	105	113	121	124	112	105	99	94	94	116	128
Croatia																		
El Salvador	33	32	31	29	28	31	32	34	35	35	36	41	47	53	58	71	50	59
Eritrea																		
Ethiopia									143	145	133	145	163	167	190	237	200	181
Georgia																		
Guatemala								92	93	91	88	99	101	105	108	128	97	78
Guinea-Bissau											102	136	158	190	131	189	166	120
Haiti										35	36	41	47	51	61	77	67	50
Lebanon										72	67	66	72	85	70	44	32	28
Liberia																		
Mozambique											88	84	72	60	43	30	24	77
Namibia																		
Nicaragua			21	23	22	22	21	22	21	20	23	28	36	47	64	75	243	2310
Papua New Guinea		94	95	98	105	101	102	103	108	101	105	109	110	108	109	113	119	119
Rwanda	53	53	55	57	59	70	71	73	79	84	81	91	100	107	113	118	121	127
Sierra Leone	90	85	85	73	69	71	67	62	66	70	71	86	108	123	162	145	72	85
Solomon Islands	0	69	70	73	78	75	73	68	66	64	67	75	81	75	78	81	81	73
Tajikistan																		
Uganda										1036	339	286	226	143	204	230	206	237

cont'd

Appendix L: Trade competitiveness index - continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan																			
Angola							175	82	74	137	173	86	100	125	123	130	152	170	194
Azerbaijan						38	43	71	86	102	114	105	100	100	94	82	76	80	81
Bosnia and Herzegovina										97	103	105	101	106	111	107	103	103	108
Burundi	108	109	99	103	89	93	98	105	107	127	115	98	100	97	83	69	67	73	75
Cambodia			57	98	94	95	110	107	109	105	101	103	100	100	103	96	92	90	89
Chad	175	151	169	169	171	147	106	121	129	122	130	114	100	109	121	133	128	130	135
Congo, Dem. Rep. of the	54	54	47	50	49	94	47	45	38	46	50	80	100	45	36	30	28	27	30
Congo, Rep. of	123	108	132	128	128	124	95	104	110	113	117	118	100	98	106	120	123	122	122
Côte d'Ivoire	129	122	127	127	136	140	88	100	101	100	108	108	100	103	109	117	117	115	113
Croatia																			
El Salvador	67	75	66	63	66	75	81	85	91	95	100	102	100	103	106	101	98	95	94
Eritrea																			
Ethiopia	179	191	194	268	213	128	126	111	103	104	104	102	100	91	90	96	90	95	102
Georgia								65	90	99	104	93	100	102	96	88	91	95	98
Guatemala	77	77	66	78	83	85	90	92	97	108	114	103	100	107	117	115	114	120	122
Guinea-Bissau	93	106	106	103	89	101	89	84	87	95	105	102	100	102	108	108	107	105	103
Haiti	50	54	58	55	38	40	47	54	65	79	94	104	100	104	95	73	87	91	100
Lebanon	33	40	43	48	45	56	61	62	70	83	92	96	100	102	100	88	80	76	76
Liberia																			
Mozambique	96	105	109	92	72	71	74	69	85	95	101	100	100	85	86	78	81	81	81
Namibia																			
Nicaragua	84	70	114	113	116	125	108	100	100	98	100	99	100	101	101	93	89	87	85
Papua New Guinea	115	117	108	115	119	127	120	103	110	110	102	92	100	96	90	98	98	95	93
Rwanda	130	127	118	96	95	109	144	101	91	108	114	109	100	93	87	73	69	73	76
Sierra Leone	113	101	75	79	74	84	102	88	90	105	92	111	100	110	97	80	71	71	71
Solomon Islands	73	73	72	77	78	79	87	84	88	96	95	100	100	108	91	83	80	79	79
Tajikistan																			
Uganda	185	120	92	88	99	127	123	118	125	112	106	100	98	95	82	84	86	85	

Source: IMF, 2004b; IMF, 2007e; IMF, 2007f; IMF, 2008a; World Bank, 2007a; World Bank, 2001.

Appendix M: Public sector deficits

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Afghanistan																				
Angola																				
Azerbaijan																				
Bosnia and Herzegovina																				
Burundi											-7.0	-7.3	-8.7	-14.5	-9.0	-6.7	-4.9	-12.8	-9.3	-2.7
Cambodia																				
Chad														-0.2	-1.4	-1.8	-13.4	-16.9	-12.6	-16.1
Congo, Dem. Rep. of the		-3.19	-3.07	-4.05	-7.13	-4.48	-8.58	-4.80	-5.23	-2.98	-1.7	-5.1	-5.3	-2.5	-2.3	0.9	-1.0	-1.4	-8.7	-0.9
Congo, Rep. of	-1.4	-2.7									-5.9	-0.1	-13.3	-3.8	-5.3	-4.5	-8.2	-12.8	-18.5	-10.9
Côte d'Ivoire	-3.4	-4.5	-1.3		-0.9	-2.3	-12.4	-3.6	-8.4	-10.3	-12.2	-11.8	-15.9	-11.4	-1.7	2.0	-2.4	-7.3	-13.5	-14.4
Croatia																				
El Salvador			-1.0	-0.3	-0.7	-1.5	-0.5	1.2	-1.4	-1.0	-5.7	-7.5	-7.7	-5.5	-6.1	-4.1	1.0	-0.7	-0.3	-2.1
Eritrea																				
Ethiopia											-5.6	-3.1	-5.1	-10.8	-5.2	-8.4	-6.1	-4.5	-5.1	-8.0
Georgia																				
Guatemala	..	..	-2.19	-1.51	-1.47	-0.85	-2.67	-0.96	-1.21	-2.18	-3.4	-5.5	-4.4	-3.1	-3.8	-1.8	-0.6	-0.8	-1.1	-1.7
Guinea-Bissau	..	..									-38.6	-27.3	-25.8	-34.9	-42.5	-51.0	-15.5	-18.4	-17.3	-13.9
Haiti																				
Lebanon																				
Liberia					0.84	0.19	-2.36	-3.00	-6.17	-13.60	-8.3	-10.5	-11.0	-10.7	-6.7	-8.6	-9.1	-7.9	-7.7	
Mozambique																				
Namibia																				
Nicaragua	-3.0	-3.0	-3.0	-3.0	-3.0	-5.7	-5.7	-5.7	-5.7	-5.7	-8.9	-8.8	-12.4	-21.8	-23.5	-21.6	-13.5	-17.5	-29.0	-8.2
Papua New Guinea																				
Rwanda				-2.7	-2.5	-1.4	-2.0	-1.4	-1.6	-1.7	-1.7	-3.8	-4.0	-4.7	-1.8	-3.6	-4.5	-8.3	-5.4	-5.2
Sierra Leone	..	..	..		-4.0	-10.1	-7.1	-6.4	-8.4	-11.4	-12.4	-9.5	-10.5	-12.4	-6.8	-6.8	-2.0	-15.6	-5.9	-4.8
Solomon Islands																				
Tajikistan																				
Uganda	..	..	..	..	..	..	..	..	..	..	-2.69	-6.43	-9.53	-3.23	-2.56	-5.70	-3.90	-4.00	-4.50	-2.00

cont'd

Appendix M: Public sector deficits - continued

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan														-1.75	-0.65	0.87	
Angola										-35.0	-8.40	-4.00	-9.30	-7.90			
Azerbaijan					-11.17	-3.13	-2.36	-3.97	-4.94	-4.67							
Bosnia and Herzegovina														0.71	1.67	2.26	
Burundi	-5.0	-4.0	-12.9	-4.8	-4.7	-5.4	-7.8	-5.8	-2.9	-2.4		-7.2	-5.7	-13.8	-19.7	-16.8	
Cambodia				0.0	-0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1		
Chad	-13.8	-13.3	-11.7	-10.1													
Congo, Dem. Rep. of the	-7.9	-14.6	-15.0	-13.7	-1.8	0.0	-0.3	-0.8	-2.8	-5.6	-4.0	-1.7	-2.0	-4.1	-4.0	-3.0	-0.70
Congo, Rep. of	-4.2	-11.3	-20.3	-22.6								-1.3	-5.2	6.4			
Côte d'Ivoire	-12.8	-13.1	-11.7	-15.8								2.8	1.7	-2.5	-2.6	-2.8	-2.40
Croatia																	
El Salvador	-1.7	-2.3	-0.9	-1.1	-0.8	-0.1	-0.6	-0.6					-4.7	-2.5	-3.3	-4.4	
Eritrea																	
Ethiopia	-12.5	-9.0	-7.4	-4.1					-6.6	-1.4	3.9	-2.5	-2.2				
Georgia								-4.3	-2.8	-2.2	-1.6	0.2	-1.8	-0.9	0.5	1.5	
Guatemala	-1.9	0.1	0.2	-0.7	-1.2	-0.8	-0.1	-1.0	-1.2	-1.6	-1.8	-1.7	-0.9	-2.3	-0.9	-1.5	
Guinea-Bissau	-25.4	-35.8	-38.1	-29.3	-21.5												
Haiti																	
Lebanon											-18.9	-15.4	-13.0	-13.4	-8.5		
Liberia																	
Mozambique									-2.4	-1.5	-6.0	-6.6	-7.9	-4.9			
Namibia		-2.6	-5.0							-2.8	-3.0	-3.1	-0.9	-6.8			
Nicaragua	-35.5	6.4	-1.8	0.1	-2.1	0.6	-1.0	-0.7	-0.5	-2.2	-3.1	-5.9	-1.7	-1.9	-1.1	-0.7	
Papua New Guinea	-2.2	-1.7	-5.5	-5.7	-2.6	-0.5	0.6	0.3	-1.7	-2.8	-1.9	-1.3	-2.3				
Rwanda	-7.2	-6.6	-7.7	-9.3													
Sierra Leone	-2.0	-5.5	-6.3	-5.6	-6.8	-7.0	-6.7	-7.2		-9.47	-9.33	-9.18	-8.26	-5.64	-2.48		
Solomon Islands																	
Tajikistan									-3.25	-1.96	-0.81	-0.15		-4.57	-6.61		
Uganda	-4.40	-3.80	-14.20	-11.10	-11.30				-7.0	-8.5	-12.2	-11.5	-13.9	-12.3			

Source: Beresford et al., 2004; IMF, 2004b; IMF, 2007e; IMF, 2007f; IMF, 2008a; World Bank, 2007a; World Bank, 2001.

Appendix N: Aid flows

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Afghanistan	1.5	2.4	3.4	3.2	2.2	2.9	2.7	2.8	2.4	2.8	0.9	0.7						
Angola																1.4	2.2	1.9
Azerbaijan																		
Bosnia and Herzegovina																		
Burundi	7.5	8.9	10.9	9.1	11.1	11.5	10.0	8.9	12.4	12.2	12.6	12.5	12.5	12.8	14.1	12.1	16.2	17.8
Cambodia	2.6	4.2	13.3	20.7	52.3													2.0
Chad	4.8	6.1	5.2	7.0	12.0	7.7	7.0	8.7	11.0	8.5	3.4	6.7	7.6	10.4	12.1	17.3	15.0	17.4
Congo, Dem. Rep. of the	1.9	2.0	2.0	1.8	1.9	2.0	2.0	2.2	2.1	2.8	3.1	3.2	2.6	2.9	4.0	4.6	5.6	9.6
Congo, Rep. of	5.8	5.5	5.7	5.1	6.6	7.6	10.1	6.6	9.7	8.2	5.9	4.3	4.5	5.6	4.7	3.4	5.7	5.9
Côte d'Ivoire	3.7	3.4	2.7	2.6	2.5	2.7	2.4	1.7	1.7	1.8	2.2	1.6	1.9	2.5	1.9	1.9	2.1	2.6
Croatia	1.3	1.1	1.5	1.6	1.8	2.0	1.3	1.5	1.8	1.7	2.8	5.0	6.7	8.6	7.4	9.4	9.2	11.0
El Salvador																		
Eritrea												3.4	2.6	4.0	4.5	7.7	6.5	6.0
Ethiopia																		
Georgia	1.2	1.0	1.3	1.1	0.8	1.1	1.5	1.1	1.2	1.0	0.9	0.9	0.7	0.8	0.7	0.8	1.6	3.5
Guatemala		0.1		0.0	3.1	16.7	23.7	34.5	42.8	45.0	55.5	41.9	38.8	38.6	39.3	35.4	53.5	67.1
Guinea-Bissau	2.0	1.4	1.4	1.4	2.0	7.9	8.1	8.8	9.2	8.2	7.2	7.3	8.6	8.2	7.3	7.5	8.1	10.0
Haiti																		
Lebanon	3.8	3.5	3.3	2.5	2.8	3.3	4.1	4.4	5.9	9.0	10.4	11.8	12.2	15.5	16.2	11.2	13.0	9.9
Liberia											4.7	4.0	5.7	6.5	7.7	6.8	8.3	30.5
Mozambique														0.0		0.5	1.1	0.9
Namibia	3.3	2.5	1.7	3.3	3.3	2.8	2.3	1.7	2.1	8.0	10.8	6.3	5.2	4.7	3.9	4.3	5.4	3.8
Nicaragua	23.6	21.2	23.8	16.1	19.4	23.8	16.4	15.9	15.4	12.7	13.1	13.9	13.8	13.7	12.9	11.0	10.1	10.6
Papua New Guinea	9.9	11.3	12.2	13.5	15.2	16.0	11.9	12.4	14.3	14.2	13.2	11.5	10.6	9.8	10.2	10.3	10.6	11.2
Rwanda	1.6	2.5	2.2	2.5	1.6	2.5	2.2	3.8	4.3	4.9	8.5	5.5	6.4	6.7	5.5	7.7	20.1	9.9
Sierra Leone			45.3	30.7	21.0	45.1	37.5	27.9	38.9	27.0	41.3	25.9	22.1	23.0	11.5	13.6	22.0	34.9
Solomon Islands																		
Tajikistan	2.6	2.3	2.8	1.3	0.8	2.0	0.9	0.6	1.4	2.2	9.2	10.2	6.1	6.2	4.5	5.2	4.9	4.8
Uganda	1.5	2.4	3.4	3.2	2.2	2.9	2.7	2.8	2.4	2.8	0.9	0.7						

cont'd

Note: Aid as a % of GDP.

Appendix N: Aid flows - continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Afghanistan														16.4	32.3	34.7	36.7	37.9
Angola	2.4	2.1	3.2	2.8	9.8	8.9	23.0	11.3	7.8	5.5	6.4	8.2	4.1	3.8	4.2	4.0	6.6	1.5
Azerbaijan						2.1	4.5	3.9	3.1	4.7	2.7	3.7	2.8	4.3	6.0	4.4	2.2	1.9
Bosnia and Herzegovina							36.2	56.9	32.6	25.0	18.4	19.2	13.1	10.7	8.5	6.5	7.0	5.3
Burundi	18.9	18.8	23.5	22.2	28.9	23.2	34.1	29.0	12.9	5.9	7.6	9.3	12.8	21.1	27.9	39.4	55.9	47.0
Cambodia	1.5	2.3	3.7	5.5	10.1	12.0	11.4	16.3	12.2	9.9	11.0	8.1	11.2	10.9	11.8	11.7	9.6	9.0
Chad	17.6	17.6	18.0	14.0	12.6	15.4	18.4	16.3	18.5	14.9	9.6	12.2	9.5	11.0	11.8	10.9	8.6	7.8
Congo, Dem. Rep. of the	6.8	8.7	10.4	5.7	3.3	1.8	4.8	4.0	3.1	2.8	2.2	3.1	4.5	5.7	22.4	98.7	29.1	27.0
Congo, Rep. of	4.5	4.5	9.3	5.8	4.4	7.4	23.9	10.2	29.5	16.2	4.4	8.6	1.5	3.8	2.6	2.6	3.6	32.5
Côte d'Ivoire	4.6	4.7	7.5	6.9	7.7	7.9	21.1	12.1	8.6	4.1	8.0	3.8	3.6	1.7	9.9	2.0	1.1	0.8
Croatia	10.2	10.4	7.4	5.7	6.9	5.9	3.8	3.1	2.9	2.5	1.5	1.5	1.4	1.8	1.7	1.3	1.4	1.2
El Salvador																		
Eritrea	9.0	6.4	8.4	8.2	8.3	12.5	15.6	11.6	9.7	6.8	8.6	8.5	8.7	14.1	17.6	20.0	19.3	17.1
Ethiopia				0.0	0.6	4.4	7.2	8.1	10.2	6.6	5.5	8.3	5.3	9.2	9.1	5.6	6.1	4.9
Georgia	3.1	3.2	2.7	2.1	1.9	1.9	1.7	1.4	1.2	1.5	1.2	1.6	1.4	1.1	1.1	1.0	0.8	0.8
Guatemala	65.3	57.2	54.2	47.0	49.9	42.3	78.7	49.8	71.6	49.0	49.8	24.9	39.5	32.4	30.8	64.6	29.8	27.4
Guinea-Bissau	6.5	7.9	5.9	5.9	6.0	7.3	25.2	24.7	12.0	10.0	10.7	6.2	5.4	4.7	4.5	7.1	6.6	11.7
Haiti		3.4	7.3	2.6	1.9	1.7	2.3	1.5	1.7	1.6	1.4	1.1	1.2	1.4	2.5	1.2	1.3	1.2
Lebanon	7.6	10.2								28.8	22.4	28.1	17.4	9.5	11.4	30.4	57.1	56.8
Liberia	46.4	37.8	43.0	41.9	81.3	63.2	60.9	51.4	33.1	29.5	28.4	21.3	24.7	27.4	56.2	22.6	22.4	20.1
Mozambique	1.2	2.9	5.0	7.0	5.0	5.3	4.2	5.2	5.2	4.5	5.2	5.3	4.4	3.4	4.3	3.1	3.0	2.0
Namibia	9.7	30.2	33.4	72.1	50.4	23.8	23.7	23.0	31.1	13.2	17.8	19.0	15.0	24.1	13.5	21.3	28.7	15.4
Nicaragua	10.6	9.9	13.3	10.9	10.9	6.6	6.4	8.3	7.7	7.4	10.1	6.6	8.4	6.9	7.3	7.1	7.5	5.8
Papua New Guinea	10.3	9.4	11.2	18.9	17.2	18.1	94.9	53.5	34.0	12.5	17.7	19.4	17.9	17.8	20.7	20.3	27.2	27.2
Rwanda	10.2	11.2	10.2	14.4	23.5	30.1	34.3	24.2	20.1	14.2	16.7	11.5	29.4	44.0	38.9	31.6	34.6	29.0
Sierra Leone	27.5	21.7	22.0	15.9	17.6	22.0	16.5	14.9	12.6	10.9	13.4	12.2	22.9	21.4	11.8	26.6	45.5	66.5
Solomon Islands				0.0	0.6	1.6	5.0	5.5	10.5	9.8	12.7	11.9	13.7	16.1	14.3	10.1	12.2	10.8
Tajikistan	6.1	8.6	15.7	20.3	26.1	19.2	19.1	14.6	11.2	13.0	9.8	9.9	14.0	14.2	12.4	15.9	17.9	14.0
Uganda														16.4	32.3	34.7	36.7	37.9

Source: World Bank, 2007a.

Appendix O: Debt service

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Angola	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	3.42
Azerbaijan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Burundi	0.35	1.80	3.40	0.34	0.86	0.53	0.64	0.56	1.74	0.55	0.94	0.82	0.81	1.35	2.44	2.32	2.97	4.24	4.37	3.90
Cambodia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.00	0.00	1.09
Chad	0.62	1.37	0.76	0.53	1.03	0.76	0.51	0.37	0.58	0.36	0.58	0.86	0.21	0.13	0.83	1.68	0.74	0.65	0.65	0.82
Congo, Dem. Rep. of the	0.72	0.69	0.99	1.25	1.96	1.50	1.21	1.03	1.02	1.48	3.90	3.33	1.69	2.33	5.56	7.52	6.06	6.70	4.83	7.27
Congo, Rep. of	3.31	2.76	1.91	2.32	3.23	3.96	3.25	5.17	2.48	6.86	7.04	12.75	11.84	17.27	17.52	20.84	19.27	19.36	22.12	16.80
Côte d'Ivoire	3.01	3.16	3.41	3.14	4.16	3.79	5.00	5.00	6.23	7.63	14.54	19.38	21.91	20.61	17.94	17.70	15.60	14.88	11.55	12.85
Croatia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
El Salvador	3.22	3.78	3.93	4.78	4.21	5.42	4.09	5.06	3.32	3.04	2.75	2.78	3.94	5.98	6.72	7.03	7.83	6.78	4.98	4.01
Eritrea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ethiopia	..	..	..	..	..	..	..	..	..	..	..	0.80	0.99	1.27	1.62	1.69	2.30	2.39	2.87	2.69
Georgia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Guatemala	2.01	1.60	2.47	1.43	1.37	0.98	1.01	0.97	1.31	1.64	1.85	1.60	1.73	2.11	2.95	3.51	5.54	5.17	5.03	3.84
Guinea-Bissau	0	0	0	0	0	0	0.02	1.13	0.84	2.11	4.41	3.14	3.48	3.12	5.21	5.90	5.79	6.40	6.18	5.48
Haiti	0.98	1.81	1.21	1.22	1.01	1.22	1.87	3.17	2.68	1.96	2.03	2.38	1.93	1.60	1.91	2.40	2.25	3.01	2.84	2.24
Lebanon	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2.69
Liberia	6.61	5.69	4.77	4.84	4.07	5.36	3.81	3.56	3.30	8.33	5.77	5.09	5.87	6.69	7.89	4.99	4.30	2.05	2.90	0.97
Mozambique	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.50	1.45	2.07	2.52	3.56	3.71
Namibia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nicaragua	5.05	4.03	4.73	7.79	4.02	4.37	4.94	5.12	5.54	3.95	5.68	9.73	8.77	4.16	2.92	2.54	1.41	1.15	0.90	1.41
Papua New Guinea	4.82	8.89	12.92	10.21	8.60	7.92	7.28	6.91	7.19	4.70	6.02	7.65	10.34	11.85	16.69	14.56	12.51	11.85	14.17	15.11
Rwanda	0.61	1.53	1.08	0.05	0.15	0.07	0.51	0.17	0.20	0.52	0.65	0.62	0.52	0.61	0.79	1.03	1.00	1.09	0.89	1.15
Sierra Leone	4.34	2.08	2.34	2.28	2.54	2.33	3.79	2.56	4.62	4.66	6.13	6.34	2.94	3.04	4.07	2.84	13.35	2.44	1.85	0.84
Solomon Islands	..	..	..	..	..	..	..	..	0.02	1.45	0.28	0.40	0.35	0.55	1.49	2.45	3.42	5.41	3.39	4.25
Tajikistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Timor-Leste	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	0.73	0.68	0.65	1.45	0.67	0.71	0.84	0.55	0.92	1.29	4.64	5.16	2.94	3.92	3.61	4.48	4.42	2.57	3.12	3.60

cont'd

Note: Total debt service as a % of GNI.

Appendix O: Debt service - continued

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Afghanistan	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.11
Angola	3.97	3.94	7.08	4.77	13.34	12.58	16.90	15.76	29.29	30.28	22.89	30.25	14.74	12.12	10.84	9.77	10.83
Azerbaijan	..	..	..	0	0.01	0.33	0.32	1.97	0.54	1.33	2.60	2.35	2.82	3.06	2.91	1.99	1.41
Bosnia and Herzegovina	..	..	..	..	..	..	..	..	..	3.00	5.36	5.04	2.44	2.43	2.31	2.29	4.60
Burundi	3.80	3.32	3.70	3.88	4.48	3.91	3.62	3.06	3.45	3.66	3.02	3.54	3.79	5.08	13.60	5.07	4.54
Cambodia	2.69	0.98	0.66	1.37	0.07	0.22	0.26	0.26	0.38	0.95	0.89	0.57	0.52	0.57	0.55	0.52	0.44
Chad	0.70	0.56	0.57	1.17	1.57	1.10	1.89	2.31	2.01	2.00	1.91	1.39	1.34	2.08	1.23	1.26	1.31
Congo, Dem. Rep. of the	4.06	2.13	0.94	0.28	0.31	0.51	0.90	0.22	0.33	0.48	0.63	0.42	17.65	2.67	2.24	3.17	3.92
Congo, Rep. of	22.86	13.10	6.35	7.75	35.35	14.73	23.27	6.76	2.77	1.52	1.88	4.69	1.14	2.29	5.77	2.68	..
Côte d'Ivoire	13.70	14.03	11.82	11.30	16.50	10.45	12.25	12.36	11.51	12.34	10.50	6.26	7.69	4.40	2.66	2.08	0.75
Croatia	..	..	..	3.02	1.67	1.95	2.68	5.79	8.64	14.92	16.93	21.22	17.86	15.36	14.96	14.04	18.49
El Salvador	4.42	4.76	3.98	4.31	4.27	2.98	3.05	2.51	3.80	2.76	2.86	2.81	3.35	5.52	6.45	4.96	6.25
Eritrea	..	..	..	..	..	0.03	0	0.07	0.49	0.48	0.52	1.02	1.50	2.05	3.13	2.14	1.18
Ethiopia	1.96	1.04	0.78	1.09	1.64	2.04	4.12	1.18	1.54	2.05	1.75	2.33	1.15	1.16	1.07	0.78	1.23
Georgia	..	..	0	0.49	0.24	0.78	0.43	1.26	5.57	3.66	3.69	2.36	3.73	4.48	4.51	2.95	3.58
Guatemala	3.07	3.35	5.10	2.93	2.51	2.46	2.45	2.07	1.87	2.09	2.05	2.02	1.83	1.88	2.02	1.52	1.58
Guinea-Bissau	3.61	9.57	3.12	1.62	3.34	6.51	4.44	3.81	6.33	4.33	9.84	12.73	5.72	6.74	17.38	11.28	11.47
Haiti	1.27	0.99	0.49	0.47	0.16	3.32	0.95	1.12	1.05	1.14	1.06	0.72	0.82	1.78	2.09	1.17	1.31
Lebanon	2.87	2.27	2.38	1.74	1.86	1.84	2.13	4.60	3.08	4.46	8.57	8.53	12.04	16.98	20.60	17.15	19.80
Liberia	..	..	..	..	..	..	..	0.07	0.32	0.78	0.17	0.21	0.21	0.06	0.19	0.22	0.16
Mozambique	3.38	3.24	4.61	6.58	6.26	7.85	4.67	3.07	2.60	2.55	2.39	2.38	1.93	1.90	1.38	1.37	0.90
Namibia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nicaragua	1.60	45.73	8.20	10.15	8.28	10.21	7.30	10.45	7.52	5.25	7.67	8.72	3.96	4.77	2.95	3.64	2.38
Papua New Guinea	17.85	13.77	16.26	18.37	17.67	14.11	9.82	11.32	8.68	6.50	9.26	9.15	9.98	9.42	13.33	8.54	5.80
Rwanda	0.77	1.16	0.99	1.10	0.56	1.56	1.29	1.21	1.05	1.64	1.95	1.10	0.99	1.29	1.36	1.12	1.24
Sierra Leone	3.67	2.14	5.73	4.32	20.42	10.13	7.23	1.88	4.02	4.64	7.61	12.28	2.40	2.62	2.63	2.12	2.40
Solomon Islands	5.59	5.73	2.94	3.91	5.48	2.53	2.48	1.49	3.77	3.36	3.05	2.57	2.57	4.16	6.23	4.67	1.26
Tajikistan	..	..	0	0.05	0.03	0	0.11	5.32	7.14	7.48	6.98	7.70	8.09	5.61	4.95	3.58	5.04
Timor-Leste	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	3.42	4.51	4.09	4.87	3.79	2.37	2.47	2.57	2.33	2.19	1.27	0.90	1.23	1.37	1.53	2.00	1.24

Source: World Bank, 2007a.

Notes

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Crisis Prevention and Recovery Report 2008

Armed conflict terrorizes and kills large numbers of people, decimates economies and disrupts society. Genocidal slaughter in Rwanda and Bosnia provide particularly tragic examples of the extreme human toll of violence and war.

The economic and political consequences of violent conflict include massive loss of livelihoods, employment and incomes, debilitated infrastructure, collapse of state institutions and rule of law, continuing insecurity and fractured social networks. After a quarter century of protracted conflict, Afghanistan stands as one of the most impoverished states in the world, ranked near the bottom of all human development indicators. Economic recovery is essential to reverse and transform these adverse conditions, and to reduce the risk of a reversion to violence.

This Report reviews the experience of countries recovering from conflict and examines the major drivers of recovery, including the roles of external actors working to help them rebuild the economy. It identifies good practices and policy deficits in these efforts, and it shows how economic recovery relates to successful post-conflict peace building. It is first in the series of Conflict Prevention and Recovery Reports to be published periodically under the auspices of UNDP's Bureau for Crisis Prevention and Recovery.

The Report advocates that all recovery programmes be context-appropriate and based on a full assessment of the particular circumstances of the country. It highlights how local economic drivers flourish and many local institutions and modes of social interaction survive conflict. Post-conflict recovery efforts must understand, build on, and work with these social and institutional dynamics as they are on the ground.

The Report maintains that successful post-conflict recovery requires not only sustained economic growth, but also a pattern of growth that is likely to reduce the risk of conflict recurrence. As such, growth must be accompanied by employment expansion and must address horizontal inequalities where these are severe. Recovery efforts must also, as a priority, promote policies that will attract private sector investment as well as the return of skilled manpower.

The Report recognizes that aid can be crucial for recovery, especially in the early stages. But it urges that the management of aid must be subject to the logic of indigenous drivers and should never be a vehicle to promote parallel systems. It advocates that the post-conflict country must quickly rebuild state capacity, including the capacity to generate revenue and to spend it effectively. Improved transparency is especially important in natural resource rich countries where there is much potential rent seeking.

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