

Early recovery in post-conflict countries

A conceptual study

by

Rolf Maier

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Executive Summary

In recent years, the term ‘early recovery’ has emerged as one of the main topics in the international debate on post-conflict development. While a broad array of concepts and approaches are present in the international arena, there is currently no consensus on what is meant by ‘early recovery’, both in policy and programmatic terms. To analyze these issues, this study critically discusses, in a first step, the policy strategies and operational frameworks of selected bilateral donors, regional organizations as well as multilateral institutions to disentangle the main background concepts underlying the policy concepts and to inform the reader of the major challenges involved.

Key research questions are the relations and trade-offs between the strategic objectives of peace-building as well as security and development, the analytical integration of socio-economic development and conflict, the methodological conceptualization of the ‘transition’ phase, the trade-offs between short and long-term development objectives, and the challenge of sequence and prioritization.

Conceptually the study is based on **two assumptions**. First, our perspective starts from the early post-conflict situation in a country defined by the first three years after conflict, that is we do not focus our discussion only on concepts which explicitly use the term ‘early recovery’. Second, our thinking starts from the national and domestic perspective in the country.

The review of the ‘state of the art’ frameworks applied internationally results in **two general and complementary findings**. First, most frameworks and operational policies are a hybrid and eclectic combination of heterogeneous concepts and paradigms which makes it difficult to disentangle, analytically, background concepts and economic paradigms. Second, ‘early recovery’ in a post-conflict situation is by its very nature a combination of different policy areas and schools of thought. At least four major strands form the background concepts of ‘early recovery’: frameworks on humanitarian assistance, theories on economic growth as well as development, concepts on peace-building as well as human security, and models on governance and state-building.

Key elements of a ‘consolidated’ framework on ‘early recovery’

A policy framework on early recovery needs to integrate a multidisciplinary approach covering humanitarian assistance, economic growth and development, peace-building and security, and governance as well as state-building.

The objectives of socio-economic policy in early post-conflict recovery are to avoid negative effects aggravating conflict, to avoid relapses into armed conflict and to support peace-building via development activities.

Economic activities can be drivers of conflict and can be driven by conflict. However, the inter-linkages between economic activities as well as conflict are not clear and very much depend on the specific context.

A balanced view in addressing both structural and proximate causes of conflict in the early post-conflict situation is needed.

The root causes of former conflict are latent factors that may expose a country to risk once certain trigger factors are activated. The relation between country-specific trigger factors and root causes is not clear. Trigger factors are difficult to address.

Proximate and destabilizing conflict factors are the immediate layer and possibly the only factor which could be addressed realistically with short-term results. Nevertheless, economic growth and poverty reduction are important to stabilise the situation in the medium to long term.

Post-conflict recovery is a fluid, non-linear and open process requiring a combination of short and long-term activities depending on the country context.

Policy makers face serious trade-offs to decide between short and long-term goals. Effective, short-term solutions may not always be economically efficient in the long term, but may be important in post-conflict situations.

One of the main challenges for economic policy is to find the right balance between the consolidation of political stability and not jeopardizing economic stability.

Prioritization and sequencing critically depend on country-specific economic growth and political economy analysis and the subsequent formulation of economic policies.

Socio-economic priority areas

In a second step the study discusses key socio-economic challenges of an early post-conflict situation to give a broad overview of relevant socio-economic policy areas. The basic idea is to present stylized facts and binding constraints from cross-country as well as comparative country experience. While each country context needs specific political and economic analysis, the comparison of heterogeneous country experiences reveals common issues and serves as an organizing framework for country-specific priority areas.

Methodologically, the analysis uses the concept of growth diagnosis as a starting background framework to define binding constraints. However, the concept is extended to the state-building and peace-building problem of an early post-conflict situation, thereby highlighting the specific political and economic challenges of a post-war economy.

The priority areas are presented by comparatively describing their role in post-conflict countries, indicating their possible direct or indirect effects on conflict, and elaborating on the trade-offs between short-term and long-term objectives.

Based on an in-depth literature review, the study highlights **detailed policy recommendations and implications in fourteen priority areas (see the summary of chapter 4)**: the reintegration of ex-combatants and special groups (IDPs, refugees), infrastructure, employment, agriculture, education, health, fiscal policy and public finance, monetary policy and exchange rate management, the financial sector, external finances (capital flight, debt relief, remittances, ODA), trade, private sector development and entrepreneurship, economic governance (land property rights and access to land, corruption, the management of natural resources, illegal economic activities, regional conflict factors) and horizontal inequality.

To decide on feasible priority areas in a fluid and non-linear post-conflict situation, the study finally opts for a **multidisciplinary country-specific analysis integrating growth as well as political economy analysis, conflict assessment and poverty as well as inequality analysis**. In addition, a **broader and medium-term economic perspective should be integrated at an early stage**.

1. Introduction¹

(...) ‘war-to-peace’ transition and ‘post-conflict’ are not easily defined. Indeed, conflict prevails in all societies – both rich and poor, and the resolution of conflict is the business of everyday life. Conflict turns violent when the mechanisms for its peaceful resolution break down. Success in post-conflict recovery can, therefore, be measured by the degree to which it pushes violent conflict into peaceful channels in which it can be expressed and eventually resolved²

In recent years, early recovery has emerged as one of the main topics in post-conflict development. While the term ‘early recovery’ is prominent in the international debate, a broad array of concepts and approaches are present in the international arena. Currently, there is no consensus as to what is meant by ‘early recovery’, both in policy and programmatic terms. In addition, important implementation questions at the operational level are debated and a consensus is only slowly emerging.

At the heart of the ‘early recovery’ discourse lies the **debate on the security-development nexus** and the question of which overarching objective should be addressed with socio-economic policy.

Success in reducing and ending conflict need not imply that poverty reduction has been adequately addressed, nor that chronic poverty is high up on the agenda either. A society might achieve a large measure of peace without a strong anti-poverty agenda.³

A second major challenge is **timing with important trade-offs for the prioritization and sequence** of socio-economic activities.

To analyze these issues, in section II the conceptual study presents the policy strategies and operational frameworks of selected bilateral donors, regional organizations as well as multilateral institutions, together with a brief critical review. In a subsequent systematic discussion in section III the main background concepts underlying policy frameworks are analytically disentangled and the reader is informed of the major challenges.

1 The author would like to thank Paul Lange for his research assistance and Louise Anten for very helpful comments.

2 Addison T., Brueck T. (2009). *Making peace work. The challenges of social and economic reconstruction*

3 Addison T., Brueck T. (2009). *Making peace work. The challenges of social and economic reconstruction*

Key research questions are the following

- the relations and trade-offs between the strategic objectives of peace-building as well as security and development,
- the analytical integration of socio-economic development and conflict,
- the methodological conceptualization of the 'transition' phase,
- the trade-offs between short and long-term development objectives,
- and the challenge of sequence and prioritization.

In section IV key socio-economic challenges of an early post-conflict situation are presented. The research includes comparative country experiences and a review of the literature. The aim of section IV is to provide a broad overview of relevant socio-economic policy areas. The report concludes with policy recommendations in section V.

2. Policies and analytical frameworks

Before we start our review of the frameworks, we want to expose two basic assumptions on which the report is based.

We take a **pragmatic view** with respect to operational as well as policy frameworks and background concepts. Our perspective starts from the early post-conflict situation in a country defined by the **first three years after conflict**. We are aware of the problem of defining a post-conflict situation and the difficulties in thinking of a ‘transition phase’. We will not bind our discussion to concepts which explicitly use the term ‘early recovery’. Instead, we will look at every political strategy and operation policy which covers the first three years after the end of a conflict.

Second, our thinking starts from the **national and domestic perspective of the country**. Thus early socio-economic recovery encompasses domestic socio-economic policy, as well as the regional impacts and activities of the international donor community.

2.1 Bilateral donors

2.1.1 Germany

The German development policy discusses the framework for post-conflict countries in three documents:

- a general conceptual framework for development-oriented transformation in conditions of fragile statehood and poor government performance in which post-conflict countries are a sub-category ⁴
- a framework for crisis prevention, conflict transformation, and peace-building in German development cooperation ⁵
- a framework for development-oriented emergency and transitional aid ⁶

4 BMZ (2007). *Development-oriented Transformation in Conditions of Fragile Statehood and poor Government Performance*. Strategies 153

5 BMZ (2005). *Sector strategy for crisis prevention, conflict transformation and peace-building in German development cooperation*. Strategies 132

6 MZ (2006). *Development-oriented Emergency and Transitional Aid*. Strategies 138

The discussion of the objective of development policy in post-conflict countries is embedded in a broader policy framework on fragile states.⁷ The core tasks of the government are divided into political, administrative, judicial, social, economic and security governance. Two categories define the objectives of development policy: the governance level and the trend of governance.⁸ Taking a low level of governance, three different trends of governance might be possible: worsening, neutral, or improving. The combination of a low level of governance and a worsening trend of governance would result in the development policy recommendation to protect vulnerable parts of the population via humanitarian assistance, to deliver basic services, to use development-oriented emergency and transitional aid, to promote self-sufficiency and to apply the concept of a ‘responsibility to protect’. The general guiding principles on development policy in fragile states are oriented on the OECD principles for good international engagement in fragile states and situations (2007).⁹

The German development policy defines three guidelines for its engagement in (post-) conflict situations:¹⁰

- crisis prevention: development policy should help to prevent structural causes of conflicts by enhancing economic, social, environmental and political conditions
- conflict mediation in latent or open escalating conflict situations: development policy supports societal and governmental actors in non-violent conflict transformation
- peace-building after the end of violent conflict: development policy helps to build peace

In general, development and peace are seen as mutually dependent resulting in the term ‘peace development’. In addition, the relation between development policy and conflict as well as peace building crucially hinges upon the concept of ‘human security’ which encompasses the security of the state and the population, respecting human rights, the rule of law, and economic, ecological and social security. On the other side, development policy is given only a supporting role in conflict transformation and peace-building, since it cannot itself solve the conflict or secure peace.¹¹ After the end of a violent conflict, development cooperation should prevent relapses into conflict, it should support reconciliation and result in a ‘peace dividend’.

The framework distinguishes between two reasons for conflict: long-term structural causes of conflict (weak governance, socio-economic and political inequalities, high criminality and a lack of security) and short-term escalating factors of violence (e.g. external shocks, a government change). Development policy should address mostly the root causes of conflict even in the early post-conflict situation, since the trigger factors of conflict are only partly addressable by development cooperation with its longer-term approach.

To develop a conflict-sensitive and context-specific strategy, the framework proposes five analytical steps: conflict analysis, portfolio assessment, the formulation of objectives, strategy, and adjustments to the portfolio.¹²

7 BMZ (2007). *Development-oriented Transformation in Conditions of Fragile Statehood and poor Government Performance*. Strategies 153

8 The following criteria assess the governance level and the trend in fragile states: poverty orientation and the sustainability of policy, protection of human rights, democracy and the rule of law, the transparency and performance of the state, and cooperative behaviour in the international community.

9 Coordinate and harmonise donor strategies, context specificity, conflict sensitivity, alignment to national structures, strengthen drivers of change, respect informal and traditional structures, respect gender issues, take endangered children and youths into consideration, non-discrimination as a pre-requisite for an inclusive society.

10 BMZ (2005). *Sector strategy for crisis prevention, conflict transformation and peace-building in German development cooperation*. Strategies 132

11 BMZ (2005). *Sector strategy for crisis prevention, conflict transformation and peace-building in German development cooperation*. Strategies 132

12 Conflict sensitivity means taking into account the two-way influence that exists between the conflict and the measures taken, with the goal of avoiding any negative, conflict-aggravating impacts, and strengthening positive, de-escalating and peace-promoting impacts.

To integrate conflict sensitivity into the development activities, the framework refers methodologically to the Peace and Conflict Assessment (PCA) concept.

Peace and Conflict Assessment

The PCA method is a standardised framework which supplements the existing development cooperation instruments with a conflict component.

The PCA includes four steps: 1) peace and conflict analysis as well as an assessment of peace-building needs (PBN), 2) peace and conflict-related relevance assessment of an existing or planned portfolio, 3) conflict-sensitive risk management for development cooperation measures, 4) peace and conflict-related impact monitoring.

A PCA can be conducted both on a country and project/programme level. The extent of the analysis depends on the importance of the conflict for the implementation of the projects.

The framework should facilitate the planning and steering of conflict-sensitive measures and make projects more conceptually coherent in terms of conflict sensitivity.¹³

In addition, the German development policy comments on the Poverty Reduction Strategy process in post-conflict countries with respect to the integration of conflict sensitivity in the recommended policies.¹⁴

A third framework advocates a better linkage between quick impact activities and long-term planning.¹⁵ To cover this transition phase, the German development policy applies the concept of development-oriented emergency and transitional aid. The objective is twofold: to target the immediate needs of individuals after the conflict and to lay the first ground for sustainable development, i.e. to prevent the post-conflict economy from remaining as a combat or criminal economy. The projected time span is up to three years after the end of the conflict and the supported projects are limited to quantitative, regional and precisely defined target groups which are affected by an emergency situation.

The transition phase is conceptualized as a non-linear chronological process with respect to conflict. However, the framework is silent on how the difficult question of sequencing and prioritization should be conceptually designed.¹⁶

Critical review:

The German approach to early post-conflict recovery is **embedded in a framework on fragile statehood and conflict prevention**. The concepts structure the debate on the role of development policy in peace building and they delineate the objectives in different phases of a conflict cycle as well as proposing, with the PCA methodology, a tool for in-depth conflict analysis. The integration of short-term and long-term objectives, however, is not analyzed extensively in the policy frameworks. Moreover, the **approach is confined to a development perspective leaving aside the question of an integrated stabilization concept**.

13 TZ (2008). *Peace and Conflict Assessment (PCA). A methodological framework for the conflict- and peace-oriented alignment of development programmes.*

14 Questions are e.g.: How do national poverty reduction strategies deal with the root causes of conflicts? Are economic reform policies (e.g. IMF) appropriate with respect to the (post-) conflict situation? Are Post-Conflict Needs Assessment (PCNAs) conducted in line with international standards?

15 BMZ (2006). *Development-oriented Emergency and Transitional Aid. Strategies* 138

16 Referring to the sequence question, the transition from emergency to longer-term activities should be fluid.

Key documents

BMZ (2005). *Sector strategy for crisis prevention, conflict transformation and peace-building in German development cooperation*. Strategies 132

BMZ (2006). *Development-oriented Emergency and Transitional Aid*. Strategies 138

BMZ (2007). *Development-oriented Transformation in Conditions of Fragile Statehood and poor Government Performance*. Strategies 153

GTZ (2008). *Peace and Conflict Assessment (PCA). A methodological framework for the conflict- and peace-oriented alignment of development programmes*.

2.1.2 United Kingdom

Stabilisation is the overarching concept of the UK policy towards (post-) conflict countries.

*Stabilisation is the summary term for the essential processes (military, humanitarian, political and developmental) that are required to establish peace and security and put in place a political settlement that produces a legitimate government in states that have experienced (and sometimes still experience) violent conflict.*¹⁷

Stabilisation should aim to prevent or reduce violence with often political as well as coercive interventions, to protect people and key institutions, to promote political processes for greater stability, and to prepare for longer-term non-violent politics and development. The key guidelines for success are a pragmatic and realistic approach to strategy, the importance of strong local political leadership and coordination, and the need for close civilian-military cooperation. To define the concept of stabilisation further, we highlight two aspects. Stabilisation is seen to have explicitly political aims in contrast to strictly neutral humanitarian assistance and apolitical development. Furthermore, the concept of stabilisation emphasizes the security and military aspect of a (post-) conflict situation.¹⁸

The approach draws a parallel with the concept of ‘early recovery’ having both political and security dimensions as well as development objectives.¹⁹ While a comprehensive approach to politics, security and development is promoted, the relation and trade-offs between socio-economic and security objectives are never explicitly analyzed. In general, the approach expects the provision of basic services and economic initiatives like employment and private sector development to contribute positively to stabilisation.²⁰ Economic initiatives are seen to have the potential to create income, to stimulate local economic recovery, to facilitate networks across

17 Stabilisation Unit (2008). *The UK approach to Stabilisation. Stabilisation Unit Guidance Notes*

18 Stabilisation Unit (2008). *The UK approach to Stabilisation. Stabilisation Unit Guidance Notes*

19 Stabilisation Unit (2008). *The UK approach to Stabilisation. Stabilisation Unit Guidance Notes*

20 The key tasks of stabilisation with respect to socio-economic development encompass public administration capacity building (taxation) and anti-corruption initiatives; the restoration of basic services, infrastructure and livelihoods, economic initiatives with special focus on private sector development; effective government economic and financial management; long-term social service and infrastructure development. A related fundamental task of stabilisation activities is to contribute to state-building as the approach considers the role of the state critical in providing core security and administrative functions. State-building depends on political settlement with destabilising interest groups, the effectiveness of the vital government functions such a security, taxation, and the rule of law and the functions expected by citizens like health, education or energy. The three elements of state-building are seen to form a virtuous circle. See Stabilisation Unit (2008). *The UK approach to Stabilisation. Stabilisation Unit Guidance Notes*

opposing groups and to re-establish trust in the government.²¹ It is therefore hoped that socio-economic development will reduce the risk of violence and conflict reversion, transform war economies into productive peacetime economies and set the country on the path towards long-term development. On the other hand, the private sector is seen as one of the primary beneficiaries of stabilisation.²²

The framework does not elaborate on a specific concept of conflict or conflict sensitivity. However, a clear understanding of the causes and dimensions of instability as well as social, political and economic challenges is required via the pragmatic application of conflict assessment tools. A country-specific context analysis should help to prevent the negative impact of economic initiatives on stabilisation. Special attention is given to the risks of socio-economic exclusion and the monopolisation of economic gains.

Concerning the relation between short-term and long-term development objectives, the stabilisation concept is seen to fill the gap between emergency humanitarian assistance and longer-term development assistance. The approach emphasizes that stabilisation is not a linear process, but rather indicates the direction in which (post-) conflict countries should move. To integrate short-term and long-term considerations and to manage conflicting requirements, the concept proposes to hand back, as early as is feasible, substituted state institutions and to adopt an inclusive approach in working with local allies. Furthermore, knowledge of the existing context is critical in evaluating long-term implications. On the other side, the approach warns against acting too quickly in sidelining major priorities. Finally, the concept lists certain principles to ensure the positive impact of Quick Impact Projects on longer-term developments like the linkage of local projects to regional programmes and the requirement of sustained financing.²³

The framework requires a focus on a small number of priorities and their sequence. Technical and political criteria are mentioned as criteria to prioritize activities. One key priority is the development of a political settlement. Accepting the importance of some basic government capacity, the approach suggests that previously existing institutions should only be gradually developed. Establishing a fair and effective taxation system is suggested as additional priority to raise state revenue and create a 'contract' between the state and its citizens.

Critical review:

Both the **emphasis on the political component** of post-conflict recovery and the **acceptance of military interventions** distinguishes the concept from most of the other approaches. But the **question is still open whether the framework appropriately balances the humanitarian, development, military and political aspects**.

A related problem is that the **analytical link between economic initiatives and stabilisation is not rigorously analyzed, but is only asserted**. While referring to common conflict assessment tools, this might be a minor issue. Nevertheless, the concept leaves important explanation gaps in how socio-economic policy is linked to conflict reduction.

On the other hand, the concept correctly highlights **pragmatism and realism** in the early post-conflict situation. In addition, **the relevance of understanding the war and criminal economy** for a positive post-conflict transition is a welcome contribution to the early recovery debate.

21 In order for economic initiatives to contribute to stabilisation, the concept stresses the simultaneous stimulation of a business-enabling environment, the local economy and the private sector. See Stabilisation Unit (2008). *Stabilisation through economic initiatives: Private Sector Development (PSD)*

22 Stabilisation Unit (2008). *Stabilisation through economic initiatives: Private Sector Development (PSD)*.

23 Quick Impact Projects (such as the delivery of basic services or employment opportunities) are described as simple projects which may have a rapid noticeable effect on the ground. See Stabilisation Unit (2008). *The UK approach to Stabilisation. Stabilisation Unit Guidance Notes*

Key documents

Stabilisation Unit (DfID/ Foreign & Commonwealth Office/ Ministry of Defence) (2008). *The UK Approach to Stabilisation. Stabilisation Unit Guidance Notes*.

Stabilisation Unit (DfID/ Foreign & Commonwealth Office/ Ministry of Defence) (2008). *Stabilisation through economic initiatives: Private Sector Development (PSD)*.

DfID/UKAID (2009). *Eliminating World Poverty: Building Our Common Future*

2.1.3 USA

The US discusses its approach to early post-conflict recovery in an economic growth framework. While the relation between economic growth and peace-building objectives is not explicitly analyzed, the concept sees economic growth as an integral part of a stabilization programme and a significant contribution to the solution.²⁴ The purpose of fostering economic growth is to avoid the risks of a relapse into conflict and to increase the well-being of everyone. The objectives for designing economic growth programmes are to stabilize the economy and to position it so that it can grow rapidly, to re-establish essential economic governance functions and restore the government's legitimacy, to boost employment and improve well-being as quickly as possible and to target the root causes of the conflict. The basic rationale for focusing activities on economic growth is the positive correlation between low growth and an increased risk of a conflict recurrence found in the empirical literature.²⁵

While the framework argues that early attention should be paid to economic growth, the concept emphasizes the fundamental different characteristics of post-conflict countries with respect to 'stable developing countries'. Economic growth programming especially has to take into account the specific political, social and economic legacy of violent conflicts. Thus economic activities should be sensitive to the social and political dimensions of the conflict by assessing its impact on the legitimacy of the government, on employment and on equity.

In order to analyze the impact of development and humanitarian assistance on conflict, USAID applies a Conflict Assessment Framework (CAF). While highlighting the complexity of conflicts, the assessment disentangles causes of conflict and looks at how development assistance is linked to these factors. The concept starts from the recognition that several types of causes need to be present for a conflict to develop: (a) causes that fuel incentives or motives for participation in violence; (b) causes that facilitate the mobilization and expansion of violence; (c) causes found at the level of the state's capacity to manage and respond to conflict; and (d) regional or international causes. In addition, windows of vulnerability like highly contested elections or economic shocks may trigger violent conflicts. Arguing for a holistic approach, the CAF concept emphasizes that the conflict prevention lens should be applied to each intervention area.²⁶ In addition, post-conflict economic growth programmes should address as directly as possible the factors that led to the conflict as well as increasing opportunities and inclusiveness throughout the population.

The post-conflict economic growth framework does not use a categorization of phases, but distinguishes broadly between an immediate post-conflict period (usually two to three years) and a longer-term phase. The concept emphasizes the importance of an immediate focus on economic growth in contrast to traditional approach of distinct phases (the so-called relief to development continuum: relief and humanitarian assistance; security and democracy building; only later followed by economic reforms and capacity building).

24 In a related document, economic development and security are seen to be synchronically important to deliver success. See USAID (2006). *Lessons learned about economic governance in war-torn economies*. PPC evaluation brief No. 14

25 See e.g. Collier P., Hoeffler A. (2004). *Greed and Grievance in Civil War* in: Oxford Economic Papers 56: 563 - 595

26 USAID (2004) *Conducting a conflict assessment: a framework for strategy and program development*

Elaborating on the time constraints in an early post-conflict situation, the framework stresses four key trade-offs. First, the concept highlights the tension between the need to act quickly and the influence on the legitimacy of the local government if local institutions are bypassed. Second, the framework emphasizes the trade-off between effective solutions in the short term and more efficient solutions in the longer term. Third, short-term results should be preferred to long-term issues in terms of programming choices. Finally, the temptation to use the 'window of opportunity' to undertake reforms immediately should be aligned with the limited absorptive capacity of the local government.

In terms of prioritisation, the concept suggests focusing economic activities on the basis of what will most quickly and most effectively generate employment and stimulate the economy. Typical requirements mentioned are the promotion of local private sector participation, the phase down of refugee camps, a viable currency, and revenue collection by the government or knocking down barriers to informal and formal activity.²⁷

Critical review:

While accepting that **economic growth is no panacea for peace-building, the framework highlights correctly the neglect of economic growth thinking in the current debate on early recovery** and the policy approaches towards conflict countries. The US concept of post-conflict countries offers a framework which delineates key growth sectors like monetary and fiscal policy, banking and finance or international trade. In addition, the concept highlights the importance of the political and social context to decide on economic growth activities.

From a more economic perspective, two aspects should be criticized. First, the concept has explicitly integrated the question of distribution into the analysis. However, the **framework is silent on its concept of inclusive growth**. Finally, the **selection of key areas and boundaries is not based on a more rigorous economic analysis**.

Key documents

USAID (2004). *Conducting a conflict assessment: a framework for strategy and program development*

US Department of State (2005). *Post-conflict reconstruction. Essential tasks*

USAID (2006). *Lessons learned about economic governance in war-torn economies*. PPC evaluation brief No. 14

USAID (2009). *A guide to economic growth in post-conflict countries*

USAID (2009). *Patterns of post-conflict economic recovery*

27 USAID (2009). *A guide to economic growth in post-conflict countries*

2.2 Regional Organisations

2.2.1 African Union²⁸

The AU defines post-conflict reconstruction and development (PCRD) as

*(...) a comprehensive set of measures that seeks to: address the needs of countries emerging from conflict, including the needs of affected populations; prevent escalation of disputes; avoid relapse into violence; address the root causes of conflict; and consolidate sustainable peace.*²⁹

The central objective of the strategic and normative framework is to improve the timeliness, effectiveness and coordination of activities in post-conflict countries in order to foster social justice and sustainable peace. The framework encompasses six indicative elements which are both self-standing and cross-cutting: security, humanitarian/emergency assistance; political governance and transition; socio-economic reconstruction and development; human rights, justice and reconciliation; and women and gender.³⁰

Socio-economic development is described as a multidimensional process that should contribute to improved living conditions, an improved ability to meet basic needs (such as health, education, and food), the reduction of poverty and inequality, and the enhanced capacity of human beings.³¹ The long-term goal of the policy is to place the post-conflict country on the path of sustainable socio-economic development and to improve human development indicators. The concept of human security is seen to form the basis of all post-conflict reconstruction activities.³²

Being a proponent of a holistic human security concept, peace and development are assumed to be interrelated. Without peace there will not be sustainable development and, without development, enduring peace is impossible. Moreover, the framework does not explicitly conceptualize conflict and neither does it analyze the linkages between economic policy as well as conflict risk factors.³³

28 In 2003 the African Union created the Peace and Security Council (PSC) so as to, among other things, promote and implement peace-building and post-conflict reconstruction activities and to consolidate peace and prevent the resurgence of violence. See AU (2003). *Protocol relating to the establishment of the Peace and Security Council (PSC) of the African Union*

29 AU (2006). *Report on the elaboration of a framework document on Post Conflict Reconstruction and Development (PCRD)*

30 Furthermore, the policy is based on five core principles: African leadership; national and local ownership; inclusiveness, equity and non-discrimination; cooperation and coherence; and capacity building for sustainability. See AU (2006). *Report on the elaboration of a framework document on Post Conflict Reconstruction and Development (PCRD)*

31 Activities in the socio-economic development pillar range from the creation and strengthening of human resource capacities, the development of infrastructure, and comprehensive institution-building to the formulation of policies that address social inequity and target vulnerable groups. See AU (2006). *Report on the elaboration of a framework document on Post Conflict Reconstruction and Development (PCRD)*

32 The AU defines human security as (...) *a multi-dimensional notion of security that goes beyond the traditional notion of state security. It encompasses the right to participate fully in the process of governance, the right to equal development as well as the right to have access to resources and the basic necessities of life, the right to protection against poverty, the right to access basic social services such as education and health, the right to protection against marginalisation on the basis of gender, protection against natural disasters as well as ecological and environmental degradation. The aim of a human security framework is to safeguard the security of individuals, families, communities and the state/national life, in the economic, political and social dimensions. See AU (2006). Report on the elaboration of a framework document on Post Conflict Reconstruction and Development (PCRD)*

33 AU/NEPAD (2005). *African Post-Conflict Reconstruction Policy Framework*

The policy framework distinguishes between the emergency, transition and development phase.³⁴ Within this sequence, ‘early recovery’ could approximately cover the first two phases (see chapter 3.2.3).³⁵ However, the phases should give only a broad indication and are seen to be overlapping and not based on causal or chronological progression. In this sense, post-conflict reconstruction can be understood as a complex providing simultaneous short, medium and long-term activities. While each phase forms the basis for specific policy implications, the process is assumed to be non-linear.³⁶ Finally, the framework highlights the gap between emergency and development to stabilize the country in its security, humanitarian and socio-economic reconstruction and development pillar.

Critical review:

The framework is mainly based on the **idea of human security and sustainable development**. The concept explicitly exposes the fact that **post-conflict reconstruction and development activities should not stop with stabilization activities, but should continue to achieve long-term sustainable development**. In terms of highlighting inclusive and pro-poor growth, the framework emphasizes the **inequality and poverty reduction component for peace**. Only empirical research could reveal how far the policy activities on the implementation level are distinct from other actors.

A second **problem is the definition of self-standing and cross-cutting pillars without delineating their linkages and the lack of analytical tools to assess the impact of economic activities on conflicts**.

Key documents

AU (2003). *Protocol relating to the establishment of the Peace and Security Council (PSC) of the African Union*

AU/NEPAD (2005). *African Post-Conflict Reconstruction Policy Framework*

AU (2006). *Report on the elaboration of a framework document on Post Conflict Reconstruction and Development (PCRD)*

34 The onset of the transition phase (or the end state of an emergency phase) is marked by the following conditions: a significant improvement in the overall humanitarian situation as determined by various African and international standards; the prevalence of general safety and security; protection and assistance to groups with special needs; improved access to basic needs among vulnerable groups (...) the return and reintegration of refugees, IDPs and other displaced populations; as well as the resumption of normal livelihood and socio-economic activities. See AU/NEPAD (2005). *African Post-Conflict Reconstruction Policy Framework*, AU (2006). *Report on the elaboration of a framework document on Post Conflict Reconstruction and Development (PCRD)*

35 In addition, the concept is the only one which clearly defines the beginning and end of its mandate. *PCRD commences when the African Union mechanisms, in line with the Constitutive Act, determine that a situation warrants attention, or when parties to the conflict have demonstrated political willingness to resolve differences through political negotiation, have ceased hostilities and/or have signed a peace agreement. The end state of PCRD is on where peace, law and order prevail; the humanitarian situation has stabilised and populations are able to meet their basic needs; frameworks to protect and assist vulnerable groups are in place; political mechanisms and institutions have been established to prevent and manage conflict through peaceful means and to institutionalise equitable participation in political and social-economic life; policies and programmes to promote broad-based sustainable development are being implemented; access to justice is ensured and human rights are guaranteed. See AU/NEPAD (2005). African Post-Conflict Reconstruction Policy Framework*

36 AU/NEPAD (2005). *African Post-Conflict Reconstruction Policy Framework*

2.2.2 The European Union

In the EU the term ‘early recovery’ is mentioned in the context of humanitarian aid. The European Consensus on Humanitarian Aid (2008) states that

[...] the principles that apply to humanitarian aid are specific and distinct from other forms of aid. EU humanitarian aid, including early recovery, should take long-term development objectives into account where possible, and is closely linked to development cooperation.

Referring to other policy documents, ‘early recovery’ is not directly mentioned. The EU approach to a post-conflict situation is the application of its broader fragility concept with post-conflict reconstruction being a special case.

[...] fragility refers to weak or failing structures and to situations where the social contract is broken due to the State’s incapacity or unwillingness to deal with its basic functions, meet its obligations and responsibilities regarding the rule of law, protection of human rights and fundamental freedoms, security and safety of its population, poverty reduction, service delivery, the transparent and equitable management of resources and access to power.³⁷

The specific situation of post-conflict countries and the relation between development and security is further discussed in the Conclusions on Security and Development. *[...] there cannot be sustainable development without peace and security, and that without development and poverty eradication there will be no sustainable peace.³⁸* Peace is thus seen as a prerequisite for and a consequence of development and poverty eradication. Humanitarian, development and military actors have complementary roles and mandates in a post-conflict situation, but their responsibilities remain specific, even if coherence between them has to be improved and integrated transition strategies are promoted.³⁹

In crisis situations, the EU uses a mix of political as well as diplomatic actions, in combination with a certain level of development cooperation and crisis management tools including military interventions under the ESDP framework. Taking the prevention of conflicts as a priority goal, the EU proposes to strengthen development cooperation as well as improving the channels of dialogue and cooperation with civil society, local authorities and the private sector. Development cooperation should make an essential contribution to promote peace and stability by addressing expressions of violence and the root causes of insecurity and violent conflict.⁴⁰

In the European Consensus on Development (2006), the EU separates, in broad terms, the task of addressing the immediate needs of the population and targeting the root causes of conflict for peace-building (poverty, degradation, exploitation and unequal distribution, access to land and natural resources, weak governance, gender inequality). Even if applied more in the context of indicators for early warning, the EC Check-list for Root Causes of Conflict (2002) gives a further overview of what the EU understands under key socio-economic conflict factors: the lack of sound economic management as well as social and regional inequalities.⁴¹ Conflict

37 EU (2007). *Council Conclusions on an EU response to situations of fragility*. The fragility concept is also discussed in the context of the European Consensus on Development (2006). In addition, the European Report on Development 2009 will elaborate on the fragility issue.

38 EU (2007). *Conclusions of the Council and the representatives of the governments of the member states meeting within the Council on security and development*.

39 EU (2006). *European Consensus on Development*. The preferred instrument for more coherent and coordinated action in the political, social and political area at country level is the Common Framework for Country Strategy Papers

40 EU (2007). *Towards an EU response to situations of fragility – engaging in difficult environments for sustainable development, stability and peace*

41 EU (2002). *European Commission Check-list for Root Causes of Conflict*:

sensitivity, referred to in the *Council Conclusions on an EU response to situations of fragility* (2007), is not explicitly conceptualized and the analytical relation between development cooperation and the root causes of conflict is not further explained.

In the context of the discussion on ‘post-crisis reconstruction’, the EU advocates the concept of ‘Linking Relief, Rehabilitation and Development’ (LRRD) to address the issue of early post-conflict reconstruction. The purpose of the concept is to improve the linkage between short-term relief mechanisms, which cover mainly the immediate needs of individuals affected by the conflict, and the long-term development issues. *Better >development< can reduce the need for emergency; better >relief< can contribute to development; and better >rehabilitation< can ease the transition between the two.*⁴²

The transition phase is conceptualized not as a linear chronological process, but as an unstable process which oscillates between phases of deterioration, escalation, and de-escalation towards a more or less stable peace.⁴³ Furthermore, the phases of emergency relief, rehabilitation and development often overlap within a country. In terms of prioritization and sequencing, from this analysis an EU assessment draws the conclusion that humanitarian and development funding mechanisms should be used simultaneously in an ‘early recovery’ situation and that there is no uniform pattern for a chronological transition between them. Furthermore, a long-term perspective should be adopted even from the beginning of the conflict. The final statement in the EU assessment summarizes the EU’s LRRD approach in broad terms:

- Sound economic management

1. How robust is the economy?

Income dependency on a limited number of sectors (e.g. one single agricultural product or industry or remittance, capacity to react to international conditions (for instance massive swings in the volatility of commodity prices))

2. Is policy framework conducive to macro-economic stability?

Stability of main macro-economic fundamentals (inflation, public deficit, current accounts)

Ability to attract investment (both domestic and FDI), implementation of policies negotiated with IFIs

3. How sustainable is the state’s environmental policy?

The fairness of the management of natural resources (e.g. water), anticipation of possible internal or external conflicts over natural resources, risk of serious environmental degradation (for instance, desertification) forcing people into exile or threatening traditional ways of life

- Social and regional inequalities

1. How are social welfare policies addressed?

Overall level of literacy, health, sanitation, the development of safety nets & income policies (or, by default, the existence of alternative social mechanisms ensuring local or family solidarity), correct anticipation of massive demographic changes by public policies (especially urbanisation and youth unemployment)

2. How are social inequalities tackled?

Trend for poverty and marginalisation (esp. in absolute terms), vulnerability of least-favoured segments of society, fairness of access to education, health care, jobs, economic opportunities (including for women and minorities), existence of public policies addressing inequalities among communities through land reform, quota systems, social programmes and others

3. How are regional disparities tackled?

Urban/rural gap, existence of regions lagging behind in terms of economic development or particularly affected by a lack of vital resources, redistributive policies between regions

42 EU (2001). *Linking Relief, Rehabilitation, and Development*

43 Also called the ‘contiguuum’ model with contiguuum meaning simultaneous activities.

In post-conflict situations, the link between relief, rehabilitation and development must be seen in a broader economic, social and political context. These factors must be taken into consideration in the different phases and in the different areas of intervention. ⁴⁴

Critical review:

Having policy space in defence, diplomacy and development and being one of the biggest aid donors globally, the EU has the potential to develop and implement an integrated framework in the early post-conflict situation. While humanitarian assistance as well as development, security and foreign policy contribute to a holistic framework, it is **not always easy to distil a coherent concept**.

To analyze further the relation between fragility, state-building and the role of development aid as well as the impact of the economic crisis, the EU has recently released its **European Report on Development entitled *Development in a Context of Fragility – Focus on Africa***. Furthermore, the **EU is establishing an Implementation Plan within its fragile states approach**.

Key documents

EU (2001). *EU Programme of the Prevention of Violent Conflicts*

EU (2001). *Linking Relief, Rehabilitation, and Development*

EU (2002). *European Commission Check-list for Root Causes of Conflict*

EU (2006). *European Consensus on Development*

EU (2007). *Conclusions of the Council and the representatives of the governments of the member states meeting within the Council on security and development.*

EU (2007). *Towards an EU response to situations of fragility – engaging in difficult environments for sustainable development, stability and peace.*

EU (2007). *Council Conclusions on an EU response to situations of fragility*

EU (2008). *European Consensus on Humanitarian Aid*

2.3 Multilateral institutions

2.3.1 African Development Bank Group

In 2008 the AfDB established an operational framework to enhance its engagement in fragile countries in Africa.⁴⁵ The strategy encompasses three major objectives: to assist fragile states more effectively to move out of fragility, to help countries to prevent conflicts, and to support post-conflict transition towards more stability in political and economic terms.⁴⁶ The framework establishes a new Fragile State Facility with three pillars

44 EU (2001). *Linking Relief, Rehabilitation, and Development*

45 AfDB (2008). *Strategy for enhanced engagement in fragile states*

46 The AfDB applies the Multilateral Working Group's definition of state fragility. Countries are eligible for additional assistance through the FSF if they meet any of the following stipulations: (I) the country has a composite AfDB and World Bank Country Policy and Institutional Assessment (CPIA) score of 3.2 or less; (II) it has low income and does

covering supplementary financing for post-crisis and transition countries, arrears clearance and targeted support.⁴⁷

With respect to the relation between development and peace-building, the framework states that peace, security, and economic and social development are intertwined. Furthermore, the framework operationalizes the relation between development and security in a two-stage process to select post-conflict and transition countries. First-stage eligibility criteria refer to aspects of commitment to consolidate peace and security as well as unmet social and economic needs. Second-stage criteria cover the country's commitment to macro-economic stability, sound debt policy, financial management and the transparency of public accounts.⁴⁸

The recently published AfDB African Development Report 2008/2009 entitled *Conflict Resolution, Peace and Reconstruction* discusses further socio-economic causes of conflict and the role of economic policies in peace building. Post-conflict reconstruction is defined as the rebuilding of economic systems, infrastructure and institutions including basic services like health and education. Furthermore, the report conceptualizes peace building as a form of reconstruction, while peace is the object of reconstruction. Economic policy should address long-term development and help to reduce the risk of conflict. Potential trade-offs between economic growth and pro-peace policies should be answered in favour of peace-building. However, the objectives of risk reduction and economic recovery are also seen as complementary.⁴⁹

The report argues further that socio-economic conflict determinants are in general only latent factors that may expose a country to risk once certain trigger factors are activated. These trigger factors are extremely difficult to measure and vary considerably according to country and conflict. Nevertheless, the report opts for addressing the consequences of violent conflicts both for humanitarian reasons and to reduce conflict risk, since relative economic deprivation is considered to be related to many latent conflict risk factors. Furthermore, post-conflict economies are assumed to be highly sensitive to economic policy choices.⁵⁰ Following from its mandate, the AfDB should focus primarily on the (socio-) economic and governance dimension of the reconstruction process leaving security activities to other actors.⁵¹

not have a CPIA score; (III) UN or regional peace-building, peacekeeping or mediation operations have taken place in the country in the last three years, with the exclusion of monitoring operations.

47 The Fragile State Facility provides additional support to fragile (member) countries under three pillars (the facility is supplementary to the AfDB's regular Performance-based Allocation system). Under the first pillar the resources provided are primarily for priority infrastructure investments and capacity building. The second is the so-called arrears clearance window, intended to assist countries in their management of arrears. One of the fundamental conditions for the Bank Group's (re)engagement with member countries, including post-conflict countries, is that all arrears to the Bank Group must be cleared before new lending operations can begin. However, arrears clearance programmes are not conducted in isolation but are part of a comprehensive approach towards fragile states and post-conflict countries in particular. A third 'targeted support' pillar provides resources to fragile states for sectors that cannot be covered by traditional projects and instruments, primarily for capacity building, service delivery through non-sovereigns and knowledge building and management. The FSF allocation is based on needs rather than performance. The AfDB gives priority to the preparation and implementation of fiscal budgets, revenue mobilization, the judiciary, anti-corruption, central banking, economic policy formulation and macro-economic management. The latter often has top priority. Please refer to: <http://www.afdb.org/en/topics-sectors/initiatives-partnerships/fragile-states-facility>

48 AfDB (2008). *Strategy for enhanced engagement in fragile states*

49 AfDB (2008/2009). *African Development Report – Conflict Resolution, Peace and Reconstruction in Africa*

50 AfDB (2008/2009). *African Development Report – Conflict Resolution, Peace and Reconstruction in Africa*

51 AfDB (2008). *Strategy for enhanced engagement in fragile states*

With respect to a categorization of post-conflict phases, the operational framework assumes a fragile states continuum ranging from market deterioration, to active conflict, to post-crisis/ transition, ending with a gradual improvement phase. However, the approach acknowledges that the classification is a simplification of reality to indicate the differentiation in fragile state circumstances, since the movement along this continuum is neither automatic nor unidirectional, as countries could stagnate or move back and forth.⁵²

The question of sequencing and prioritisation is not answered with the help of a planning tool. In contrast, the African Development Report suggests short and medium to long-term priority areas for the AfDB without discussing sequencing trade-offs. Short-term activities aim to address institutional reforms and capacity building, resettling displaced populations, reintegrating vulnerable war victims, and reviving the economy. Finally, the clearance of arrears is seen as a major short-term task to allow post-conflict countries to re-establish normal relations with creditors.⁵³

Critical review:

The **African Development Report** correctly elaborates on the central objectives of socio-economic policy in an early post-conflict situation: development and the prevention of conflict recurrence. While clearly **stating the still unproven relationship between socio-economic risk factors and conflict, the report rightly emphasizes the importance of economic policy in the early post-conflict peace process.** Balancing the importance of a contextual analysis with economic intelligence, the framework tries to position the comparative advantage of the African regional development bank in the international aid architecture.

On the other hand, the **negative aspects of economic policy activities, trade-offs with respect to the sequencing of policies as well as the integration of short-term and long-term policies are not analyzed in full detail. Finally, the challenge of informal and war economies is only weakly integrated in the framework.**

Key documents:

AfDB (2004). *Bank Group post-conflict assistance policy guidelines – Arrears clearance framework*

AfDB (2008). *Strategy for enhanced engagement in fragile states*

AfDB (2008/2009). *African Development Report – Conflict Resolution, Peace and Reconstruction in Africa*

2.3.2 IMF

The IMF does not apply the term ‘early recovery’ in its policy instruments. Nevertheless, the post-conflict situation is covered by two financing instruments: the IMF emergency assistance and the Poverty Reduction and Growth Facility (PRGF).

The **emergency assistance** is intended to finance urgent balance of payments problems in the wake of natural disasters and, since 1995, post-conflict situations. It is to be disbursed rapidly and paid back within 3¼ to 5

52 AfDB (2008). *Strategy for enhanced engagement in fragile states*

A further definition of a post-conflict situation includes the level of peace observed, the efforts made to establish good governance, the resumption of normal economic activity, the progress in the area of resettlement, disarmament and reintegration as well as the position of international institutions, in particular the IFIs. See African Development Bank Group (2004). *Bank Group Post-Conflict Assistance Policy Guidelines – Arrears Clearance Framework*

53 AfDB (2008/2009). *African Development Report – Conflict Resolution, Peace and Reconstruction in Africa*

years. The main objective is to meet immediate foreign exchange financing needs arising from, for example, shortfalls in export earnings or increased imports, and avoiding a serious depletion of external reserves.

*This assistance is limited to circumstances where a member with an urgent balance of payments need is unable to develop and implement a comprehensive economic program because its capacity has been damaged by a conflict, but where sufficient capacity for planning and policy implementation nevertheless exists.*⁵⁴

The relation between macro-economic policy and conflict as well as the analytical integration of socio-economic development and conflict is not discussed, however. The receiving country is expected to indicate its intent to develop a more detailed policy programme under regular lending facilities. Policy advice on macro-economic and structural policies is an essential component of the emergency assistance. In addition, technical assistance with respect to the core responsibilities of the IMF is offered: rebuilding statistical capacity, establishing and organizing fiscal, monetary, and exchange institutions to help restore tax and government expenditure capacity, payment, credit, and foreign exchange operations.

The main objective of the **PRGF** is to make the objectives of poverty reduction and growth more central to lending operations. The PRGF is the IMF's low interest lending facility for low income countries which is framed around Poverty Reduction Strategy Papers (PRSPs). Most post-conflict countries are thus automatically included due to the eligibility conditions (all countries under a per capita gross national income of \$ 1,095 in 2007).

Being more an instrument for medium to longer-term development, the relation between socio-economic development and peace is not directly discussed. Implicitly, the specific focus of the PRGF on pro-poor growth, pro-poor spending and governance is related to the root causes of conflict. A conceptualization of conflict or the role of macro-economic policy with respect to conflict prevention is however not analyzed on a general level.⁵⁵ The PRGF focuses on the primary responsibilities of the IMF: prudent macro-economic and financial policies as well as related structural reforms such as the exchange rate and tax policy, fiscal management as well as tax and customs administration.

The PRGF tries to integrate the microeconomic and the macroeconomic level by fostering broad public participation as well as country ownership and by focussing on poverty reduction as well as growth priorities. On the other hand, macroeconomic stability is clearly a pro-poor priority in the approach.

Considering the IMF's involvement in early recovery in post-conflict countries, **four important aspects** have to be emphasized:

First, the **role of the IMF in early post-conflict recovery is to re-establish macroeconomic stability and to assist in the building of financial, fiscal and monetary institutions**. Thus, the IMF focuses on policy advice with respect to stabilisation programmes and on technical assistance to rebuild capacity in fiscal, monetary, exchange and statistical areas. These activities are important in early recovery, since macroeconomic stabilisation is a key prerequisite to reactivate economic growth and employment. Furthermore, the acceptance of an IMF programme serves as a de facto requirement for other donors to release funds.

Second, **IMF loans are bound to conditionality**: the commitment of post-conflict countries to economic reform programmes. The new **Guidelines of Conditionality (2002)** define the principles and modalities. While they do not explicitly mention the post-conflict situation, the guidelines emphasize that the circumstances of the members should be taken in account: domestic social and political objectives, economic priorities, the reasons for their balance of payments problems and their administrative capacity to implement reforms. Fund-supported

54 IMF 2009. *Emergency assistance*

55 The PRGF is closely related to the PRSPs, which sometimes integrate and analyse the relation between conflict and socio-economic development policies (see the discussion on PRSPs below).

programmes should focus primarily on solving the member's balance of payments problem and achieving medium-term external viability while fostering sustainable economic growth.⁵⁶

Third, **IMF funding policy does not include any analytical framework on the relation between conflict and macroeconomic policy, or any concept of conflict sensitivity.** From the analysis of the policy documents it is not clear whether the policy advice integrates the discussion on the root causes of conflict or the effects of economic policy on the recurrence of conflicts. Only an economic policy comparison at the country level could reveal how the IMF includes conflict in its policy advice.

Finally, the IMF has been criticized for its **strict loan releasing conditions.** One problem is that post-conflict countries are usually highly indebted and stop repaying their debt obligations during war which results in arrears. In the early post-conflict situation, the IMF and World Bank are not allowed to lend to such a country as long as the arrears have not been eliminated. Furthermore, emergency assistance loans are subject to the non-concessional rate of charge. Thus a country has first to accept an emergency loan subject to a higher interest rate and to build up a track record and credibility in policy making to have access to the PRGF at a cheaper concessional rate. This may put unnecessary pressure on governments in an early recovery phase.⁵⁷

Key documents

IMF (2002). *Guidelines on Conditionality*

IMF (2009). *Emergency Assistance*

IMF (2009). *PRGF*

2.3.3 The World Bank

Institutionally, the World Bank established in 2007 the Fragile and Conflict-affected Countries Group, a merger of the Conflict Prevention and Reconstruction Unit and its Fragile States Unit, to deal with post-conflict reconstruction.⁵⁸ The Bank's definition of fragile states is based on a Country Policy and Institutional Assessment (CPIA, now referred to as IDA Resource Allocation Index or IRAI) rating of 3.2 or lower, as well as the presence of UN or regional peace-building or peace-mediation operations.⁵⁹

The World Bank discusses its current view of operational policy in early post-conflict countries in two documents:

- OP 2.30 – Development Cooperation and Conflict (revised 2005)⁶⁰
- OP 8.00 – Rapid Response to Crises and Emergencies (2007)

56 IMF (2002). *Guidelines on Conditionality*

57 Del Castillo G. (2008). *Rebuilding war-torn states*

58 The World Bank has also merged its previous funds into the State and Peace-Building Fund (2008). The two main objectives are: (1) to support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into, crisis or arrears, (2) and to support the reconstruction and development of countries prone to, in, or emerging from conflict

59 The CPIA rates countries against a set of 16 criteria grouped in four clusters: (a) economic management, (b) structural policies, (c) policies for social inclusion and equity, (d) public sector management and institutions. The CPIA ratings are used in the IDA allocation process to evaluate the quality of policies and institutions. CPIA rating has been constantly criticized as not adequately capturing the factors relevant to development. See GTZ Discussion paper (2008). *Adaptation and Refinement of the World Bank's "Country Policy and Institutional Assessment"*

60 The document is based on the World Bank report (1998). *Post-Conflict Reconstruction: The Role of the World Bank.*

The Bank defines three objectives for its engagement in (post-) conflict situations in relation to its concept of conflict cycle: ⁶¹

- *in countries that the Bank determines are vulnerable to conflict*: to use its usual instruments (such as the Country Assistance Strategy) to promote economic growth and poverty reduction through development assistance that minimizes potential causes of conflict
- *in countries in conflict*:
 - 1 continue efforts at poverty reduction and the maintenance of socio-economic assets where possible
 - 2 provide – where requested by its partners – information on the socio-economic impacts of emergency assistance
 - 3 analyze the impact of conflict on economic and social development
 - 4 prepare for Bank assistance as opportunities arise
- *in countries in transition from conflict*: to support economic and social recovery and sustainable development through investment and the development policy advice, with particular attention to the needs of war-affected groups who are especially vulnerable by reasons of gender, age, or disability

In the view of the World Bank economic and social stability and human security are preconditions for sustainable development.⁶² Post-conflict reconstruction should facilitate the transition to sustainable peace and support socio-economic development. The Bank sees its role in supporting this process by financing the facilitation of investment for productive purposes and the promotion of international trade through loans and guarantees.⁶³ Furthermore, the Bank is not allowed to interfere in the domestic political affairs of a member and only economic considerations are relevant to its decisions.⁶⁴

The World Bank explicitly states that there is imperfect knowledge concerning the links between development assistance and conflict.⁶⁵ Its strategy to integrate conflict sensitivity is to further advance the analytical research to a better understanding of the root causes, catalysts, and policy implications of conflict and post-conflict recovery.⁶⁶ In addition, the Bank applies the Conflict Analysis Framework (CAF) to integrate conflict sensitivity into its development assistance.⁶⁷ The conflict analysis conceptualizes the relation between conflict and development (poverty reduction activities) in both directions: the impact of development assistance on stability and human security as well as the effect of conflict legacies on poverty-reducing assistance.

The framework distinguishes between the root causes of conflict and opportunities for groups to engage in violent activities.

61 World Bank (2005). OP 2.30 – *Development Cooperation and Conflict*

62 World Bank (2005). OP 2.30 – *Development Cooperation and Conflict*

63 See IBRD Articles of Agreement, § 1: *[to] assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less development countries.*

64 World Bank (2007). *Legal opinion on peace-building, security, and relief issues under the Bank's policy framework for rapid response to crises and emergencies*

65 World Bank (2005). OP 2.30 – *Development Cooperation and Conflict*

66 The World Bank has recently established a research, knowledge and learning network to enhance knowledge of structural and country-specific factors that contribute to fragility and conflict. In a First Headline Seminar (2008) eight experts discussed the issue of the transition from conflict to peace (development, state and nation building; state functions, institutions and capacity; peace-building and development)

67 World Bank (2002). *The Conflict Analysis Framework (CAF)*

With respect to socio-economic causes of conflict, the CAF uses two categories: social and ethnic relations as well as economic structure and performance.⁶⁸ The causes of conflict are seen to differ from country to country. A more in-depth analysis of each variable with respect to its impact on conflict and poverty should reveal a list of priority areas.⁶⁹ The Bank, however, is expected to address only those root causes of conflict which are in its core mandate.

To cover the early post-conflict situation, the Bank proposes the **concept of a rapid response to man-made crises and emergencies** in a more recent operational policy document.⁷⁰ The purpose of the concept is to improve the flexibility, speed and effectiveness of the Bank's emergency response. Core objectives encompass the facilitation of peace-building and assistance with the initial stages of building capacity for longer-term reconstruction. While the focus remains on its core development and economic competencies, the Bank is now allowed to extend its support to an integrated emergency recovery programme in response to a borrower's joint request with other donors. In addition, the Bank may extend its assistance within its core competencies to all borrower agencies and institutions involved in the emergency recovery effort. While not stating any time-limit, the duration of the emergency operations should be realistically linked to the issues being addressed and do not address long-term economic issues.⁷¹ However, the operational policy is silent on the conceptualization of the 'early recovery' phase and how the link between short-term and long-term activities should be achieved.

The question of sequencing and prioritization is mentioned within the context of recovery planning. The Bank proposes an Interim Strategy Note (ISN) as a short to medium-term plan for the Bank's involvement in the country (in place of up to 24 months and replaced by a more comprehensive Country Assistance Strategy - CAS).⁷² The ISN is closely aligned with peace agreements and also encompasses regional activities. Priorities for assistance may differ from those under a CAS. Furthermore, the Bank signed the Joint Declaration on Post-Crisis Assessments and Recovery Planning (2008) jointly with the UNDG and the EU.⁷³ Activities should be prioritized using criteria articulated in advance. The proposition of the declaration is to use the Post Conflict Needs Assessment (PCNA) as information for a Transitional Results Framework (TRF) which should lay out priority activities. In addition, a Guide to a Multi-Stakeholder Needs Assessment (PDNA) and Recovery Results Framework (RRF) is currently being developed.

Concerning the World Bank approach to the early post-conflict situation, **five points have to be highlighted:**

First, the **World Bank plays the most important role as the catalyst for financing in post-conflict countries.** In addition, the close collaboration between the IMF and the WB in early recovery is critical, since the macro-economic stabilization perspective of the Fund has to be supported by the supply-side and the structural development activities of the WB.⁷⁴

Second, **World Bank assistance in the form of grants is very limited in early post-conflict situations.** Furthermore, the disbursement procedure is very slow due to internal bureaucracy and consultation with national governments.

68 **Social and Ethnic Relations:** Social and economic cleavages, ethnic cleavages, regional imbalances, differential social opportunities, bridging social capital, group identity-building, myth-making, a culture of a tradition of violence
Economic Structure and Performance: Economic growth, income disparities, per capita income changes, inflationary trends, external debt management, reliance on high-value primary commodities, employment and access to productive resources, conflict-induced poverty

69 Each variable is analyzed in seven dimensions: history/changes, dynamics/trends, public perception, politicization, organization, link to conflict and intensity, link to poverty

70 World Bank (2007). OP 8.00 – *Rapid Response to Crises and Emergencies*

71 World Bank (2007). OP 8.00 – *Rapid Response to Crises and Emergencies*

72 World Bank (2005). OP 2.11 – *Country Assistance Strategies*

73 World Bank, EU, UNDG (2008). *Joint Declaration on Post-Crisis Assessments and Recovery Planning*

74 Del Castillo, G. (2008). *Rebuilding war-torn states*

Third, it is **conceptually not clear how the short-term activities are related to the longer-term development activities and whether short-term and long-term objectives should be addressed simultaneously or in sequence**. In addition, the concepts do not discuss how micro-level activities are conceptually integrated into macroeconomic policies. Country case studies by the INF or CAS might provide further insights into the economic rationale that the World Bank is applying in post-conflict situations.

Fourth, **the World Bank has been criticized for its loan releasing conditions**. One problem is that post-conflict countries are usually highly indebted and stop repaying their debt obligations during war which results in arrears. In the early post-conflict situation, the WB is not allowed to lend to such a country as long as the arrears have not been eliminated. Thus grants are only provided for analytical and technical assistance.⁷⁵

Finally, recent research has concluded that **the World Bank should apply more multidisciplinary analysis to include political economy and social analysis in the decision-making process**.⁷⁶ In addition, the effectiveness of the Bank's policy in post-conflict reconstruction has been criticized. In a recent paper, Flores/Nooruddin (2008) comes to the conclusion that the Bank has no systematic effect on either conflict recurrence or economic recovery.⁷⁷

Key documents

World Bank (1989). *IBRD articles on agreement*

World Bank (1998). *Post-Conflict Reconstruction: The Role of the World Bank*

World Bank (2002). *The Conflict Analysis Framework (CAF)*

World Bank (2005). *OP 2.11 – Country Assistance Strategies*

World Bank (2005). *OP 2.30 – Development Cooperation and Conflict*

World Bank (2007). *OP 8.00 – Rapid Response to Crises and Emergencies*

World Bank (2007). *Legal opinion on peace-building, security, and relief issues under the Bank's policy framework for rapid response to crises and emergencies*

World Bank, EU, UNDG (2008). *Joint Declaration on Post-Crisis Assessments and Recovery Planning*

GTZ Discussion paper (2008): *Adaptation and Refinement of the World Bank's "Country Policy and Institutional Assessment"*

75 Del Castillo, G. (2008). *Rebuilding war-torn states*

76 Bell, E. (2008). *The World Bank in fragile and conflict affected countries. 'How', not 'How much'*. International alert

77 The theoretical explanation is that the Bank tends to select aid recipient countries according to their ex ante probability of a conflict recurrence. In correcting the selection bias, no systematic effects of the Bank's policy have been found. See Flores T.E., Nooruddin I. (2008). *Financing the peace: evaluating World Bank post-conflict assistance programs*

2.3.4 UN: Cluster Working Group on Early Recovery⁷⁸

The CWGER defines early recovery as ‘a multidimensional process of recovery that begins in a humanitarian setting. It is guided by development principles that seek to build on humanitarian programmes and catalyze sustainable development opportunities. It aims to generate self-sustaining, nationally owned, resilient processes for post-crisis recovery.’⁷⁹

The core objectives of early recovery are to augment ongoing emergency operations, to support recovery initiatives by affected communities, and to lay the foundations for long-term development. The overall focus is to enable national institutions, as well as communities, to recover from crisis and to enter a transition phase in which the aim is to ‘build back better’ and to avoid any (conflict) relapse. However, the relation and trade-offs between development and peace building objectives are not explicitly discussed in the concept.

The framework highlights the importance of the ‘do no harm’ principle. Interventions should be based on a contextual assessment so as to avoid negative effects on the conflict. In this context, the framework suggests the application of conflict assessment tools to understand the root causes of conflict and to inform interventions. While the need for reliable information to conduct assessment activities is acknowledged, the concept emphasizes the difficult data situation in early post-conflict situations. Nevertheless, conflict analysis is seen as critical for early recovery planning.

Early recovery is supposed to be a non-identifiable stage in a sequential ‘continuum’ between relief and recovery. The concept mentions an emergency, a stabilisation, and a development phase. The transition phase is defined as ‘the period immediately after a disaster or conflict when pre-existing plans and programmes no longer reflect the most pressing priorities’.⁸⁰ Early recovery is the response to this transition need, starting immediately after the onset of a crisis and parallel to humanitarian efforts. The basic rationale of the approach is to bridge the gap between humanitarian interventions and long-term recovery. In this sense, the early recovery situation is expected to be a unique opportunity for humanitarian and development actors to work together.⁸¹

In a related UNDP document, early recovery and recovery programmes are distinguished.⁸² Early recovery programmes are supposed to be foundational, restoring, among other things, the capacities of governments as well as basic services. Recovery programmes should build on the early foundations and are seen to restore the social, political and economic fabric of society. Thus early recovery activities are supposed to be an opportunity to shape the agenda of the subsequent development phase. Furthermore, UNDP interprets its early recovery activities in the context of the achievement of sustainable development. The local approach of the concept is expected to reconcile both long-term and short-term development objectives.

To sequence activities, the concept exposes three possible criteria: early actions that generate rapid, visible results for crisis-affected populations or that are necessary enablers of planned follow-on activities, early interventions to stabilize critical public administrations functions, and the pre-positioning of UN assets to ensure a geographical reach outside the capital as well as the reintegration and re-establishment of basic social services. Finally, the concept links the prioritisation of a list of possible activities to the country-specific context.⁸³

78 In 2005 the UN’s Inter-agency Standing Committee (IASC) established nine clusters related to a relevant sector of aspects of an international response to post-conflict situations in which UN agencies, NGOs and other international organisations come together. There is one cluster for early recovery for which UNDP is the designated leader and which comprises 24 UN and non-UN partners, together constituting the Cluster Working Group on Early Recovery (CWGER).

79 UNDP/CWGER (2008). *Guidance note on early recovery*

80 UNDP/ CWGER (2008). *Guidance note on early recovery*.

81 UNDP (2008). *UNDP Policy on Early Recovery*

82 UNDP (2008). *UNDP Policy on Early Recovery*

83 UNDP/CWGER (2008). *Guidance note on early recovery*, UNDP (2008). *UNDP Policy on Early Recovery*

Critical review:

The **basic rationale** of the early recovery concept is the **assumed gap between humanitarian interventions and long-term development activities**. The international community is supposed to focus primarily on immediate life-saving needs in the direct aftermath of a violent conflict, disregarding sustainable recovery activities. **Early recovery is positioned between humanitarian and recovery activities and may cover only a relatively short time span as well as a limited but very strategic range of activities.**⁸⁴

While the framework correctly diagnoses the difficulties in integrating humanitarian and development activities, **the analysis and policy recommendations do not further analyze how early recovery activities should be integrated into longer-term growth**. One reason for this is that the framework does not propose an economic growth concept that underpins its sustainable recovery objective.⁸⁵

A second point of concern is the **weak integration of security and political issues into the analysis**. Local and national institutions may be part of the problem. In addition, the concept disregards important impeding factors of post-conflict war economies. Finally, **emphasizing local-level activities may be a somewhat too narrow perspective for early post-conflict situations which are sensitive to national economic problems and regional spill-over effects**.

On the other hand, the concept may be a step in the right direction in facing the coordination problems of humanitarian and development organizations within the UN System. Promoting a multidimensional process, the joint approach may prevent contradictory activities.

Key documents

UNDP/CWGER (2008). *Guidance note on early recovery*

UNDP (2008). *UNDP Policy on Early Recovery*

2.4 Strategic and operational frameworks

2.4.1 The Post Conflict Needs Assessment (PCNA)

PCNAs have been designed by the UN and the World Bank as an entry point for conceptualizing, negotiating and financing post-conflict recovery strategies. Originally introduced by humanitarian agencies, needs assessments in the context of a post-conflict situation include also institutional, policy and infrastructure issues.⁸⁶ The term “recovery needs” describes [...] *those priority investments in human, material and social development which a society needs to overcome the roots and consequences of violent conflict and achieve political stability, security, justice and social equity.*⁸⁷

A PCNA maps the key needs of a country emerging from conflict and is a complex analytical process led by national authorities and carried out by the UN and the WB with support from other donors. The objective of a

84 UNDP (2008). *UNDP Policy on Early Recovery*

85 The concept focuses on the achievement of the Millennium Development Goals and proposes the use of PCNA for longer-term development recovery. For further criticism of this approach, see chapter 2.4.1

86 The term „needs“ describes the need for humanitarian or development interventions to bridge the gap between identified deficits and the envisioned future (short-term post-recovery) situation of a sector or country. See UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

87 UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

PCNA is to overcome the consequences of conflict, to prevent any relapse into war, and to shape the short-term and mid-term recovery priorities.⁸⁸

The PCNA uses an UNDP definition for the term ‘recovery’:

*The recovery approach focuses on how best to restore the capacity of the government and communities to rebuild and recover from crisis and to prevent relapses. In so doing, recovery seeks not only to catalyze sustainable development activities but also to build upon earlier humanitarian programs to ensure that their inputs become assets for development.*⁸⁹

The PCNA practical guide states that development assistance should aim to support the implementation of a peace agreement, to provide the population with an early peace dividend, to address the developmental causes of conflict and to assist in the restoration of stable and just structures in the country. While political stability and security is a key priority, the PCNA does not discuss possible trade-offs between the security and development objective. Furthermore, the concept is not based on an economic growth analysis, but focuses on the achievement of the Millennium Development Goals (MDGs). The PCNA uses an analytical model of deficit analysis to clarify the objectives in each sector. The basic idea is that, first, MDG objectives have to be adjusted to the specific post-conflict situation in each sector. Second, the deficits between the adjusted objectives and the actual situation define the needs and priority areas of action.

The PCNA’s concept of conflict refers mainly to situations of macro-political conflict between two or more parties.⁹⁰ Conflict sensitivity is defined as [...] *the ability to understand the interaction between humanitarian, development and other interventions and the (conflict) context, and act upon this understanding to avoid negative impacts and maximize positive contributions.*⁹¹ The PCNA uses a conflict-sensitive framework to integrate the results of its conflict analysis at each stage of the PCNA process (preparation phase, field phase, consolidation of results). The objective of the conflict analysis is to focus the PCNA on key determinants of security and stability. The conflict analysis maps the conflict actors, divides between four conflict and peace factors (root causes of conflict, destabilising factors generated by the conflict, risks related to the peace process, and conflict-reducing factors) and maps these factors in a matrix along geographic (local, national, regional, international) and policy categories (security, political, economic, social).⁹² To prioritise conflict factors and to derive sectoral PCNA priorities, the concept uses a conflict tree.⁹³ PCNAs suggest an early focus on the root causes of conflict.

The PCNA defines the recovery period as the first decade after the end of conflict, while its main focus is the ‘transition’ period of two years after the end of war. The framework refers to three typical time phases

88 UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

89 UNDP (2001). *Executive Board of the United Nations Development Program: Role of the UNDP in Crisis and Post-Conflict Situations*

90 *A relationship between two or more interdependent parties in which at least one of the parties perceives the relationship to be negative or detects and pursues opposing interests and needs. See UNDG (2004). Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

91 UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

92 **Root causes of the former conflict:** These are long-term, structural root causes, which were at the origin of the conflict. Typical root causes are unequal access to land, education or services; competition over natural resources; growing inequality between people or communities; a weak or failing state; an unaccountable security sector.

Destabilising factors generated by the conflict: Violent conflicts deeply transform the states, economies and societies within which they take place. Typical factors cover: idle and poorly controlled armed groups; uncontrolled arms circulation; widespread unemployment; large numbers of IDPs or refugees; destroyed infrastructure and production facilities; a rise in criminal and interpersonal violence; weak political institutions; competition between political/social groups over the control of incoming aid flows; a strong illicit economy; dysfunctional health and education services; and mistrust and a desire for revenge.

93 UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

(stabilization: 12 months, transformation/institution building: 1 – 2 years, and consolidation: 3 – 10 years), which have specific needs and development assistance priorities. In this context the PCNAs cover the stabilization/transition and the transformation/institution-building phase which are defined by low absorptive capacity and low economic growth.⁹⁴ Even if the PCNA approach focuses on the short term, the framework is development-oriented and has a medium to long-term perspective. While recognizing the simultaneous presence of humanitarian and recovery needs in the transition phase, the framework is silent on how these activities relate to each other and how short-term and long-term activities are integrated from an economic growth perspective.

Considering the capacity of national institutions as critical bottlenecks for conducting needs assessment and recovery planning, the framework distinguishes between two types of post-conflict situations being two ends of a continuum: strong national capacities and weak national capacities. In the first case, a well-established government and conflict parties have committed themselves to peace, which allows a participatory approach including extensive in-country data collection as well as consultation and national structures carry out development activities with a longer-term view. In the case of weak domestic capacities, the transition government lacks capacity to engage in the needs assessment process. In-country data collection and stakeholder consultations have to be reduced to a minimum and a preliminary PCNA with a short-term focus (up to 18 months) might be more realistic. Short-impact programmes are conducted by international agencies to promote capacity building and national structures.

With respect to PCNAs, **three issues** have to be emphasized:

First, **the distinction between the root causes of conflict, destabilizing factors generated by the conflict, and risks related to the peace process is conceptually helpful** with respect to addressing factors of conflict with socio-economic policies or development assistance. In the **early recovery phase, proximate conflict factors might need more prioritisation than the root causes of conflict and could be the only ones which could be addressed realistically.**

Second, the **idea of a needs assessment has its roots in humanitarian assistance.** Even if a development focus is emphasized, it remains debateable how long-term development perspective and economic growth ideas are integrated. The framework focuses on the achievement of adjusted MDGs in each sector, but does not take into consideration an economic growth analysis of key poverty-reducing sectors nor issues on a more macro-economic policy level.

Finally, a recent review by the UN and World Bank has identified **key lessons to be learned in the PCNA processes: a lack of an agreed overall vision for conflict transformation and peace-building, insufficient realism in the timelines, and inadequate links between priorities in the political as well as security arena and in the economic as well as social arena.**⁹⁵ To address priority areas where a lack of progress could risk a reversal in the transitional and peace-building process, the review proposes to use a transitional results framework (TRF).

94 Transition (post-conflict) period: *The period in a crisis when partnerships with the international community are most crucial in supporting or underpinning still fragile cease-fires or peace processes by helping to create conditions for political stability, security, justice and social equity. See UNDG (2004). Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

95 UNDG (2007). *Joint Guidance Note on Integrated Recovery Planning using Post Conflict Needs Assessments and Transitional Results Frameworks*

Key documents

UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*

UNDG (2007). *Joint Guidance Note on Integrated Recovery Planning using Post Conflict Needs Assessments and Transitional Results Frameworks*

2.4.2 Poverty Reduction Strategy Papers (PRSP)

Even if PRSPs are more focussed on medium to longer-term development and may be conducted more at a later stage in a post-conflict situation, we include it in the discussion on early recovery for two reasons: First, most poor African countries in post-conflict recovery have made the PRSP the primary tool for articulating their strategies for growth and poverty reduction. Thus a review of linking early recovery activities to longer-term development has to take into consideration the basic concept of PRSPs. Second, the PRSPs are the operational basis and a key requirement of the IMF and the World Bank for concessional lending and debt relief. Since high indebtedness is a key issue even in an early post-conflict situation, establishing a PRSP as early as possible is indeed important.

PRSPs describe the macroeconomic, structural and social policies and programmes that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing. The five core principles of the PRSP approach are orientation to results and partnership, the long-term perspective, broad-based participation and ownership as well as a comprehensive approach in recognizing the multidimensional nature of poverty.

The approach of the PRSPs is development-oriented with pro-poor or inclusive growth as an economic paradigm. The relation between economic development and post-conflict as well as security issues is not discussed on a general level, but some PRSPs in specific countries include an analysis of conflict (e.g. Burundi, 2008 First Annual Progress Report).

In a recent paper, Obwona and Guloba (2009) made a critical review of Poverty Reduction Strategies during post-conflict recovery in Africa. They concluded with a **list of main challenges for the effectiveness of PRSP processes and the likelihood of successful implementation**.⁹⁶

First, **the authors argue that the primary goals of PRSPs in post-conflict countries should be governance, conflict resolution, and security**. If security is not addressed as a priority, economic activity may shift from production and investment to short-term commercial activities, profiteering and rent-seeking. The PRSP process may be a necessary but insufficient instrument for achieving poverty reduction and peace-building objectives. Furthermore, poverty diagnostic could be more conflict sensitive. In this sense donors should encourage governments to address the causes and impacts of conflict and to integrate conflict prevention and peace-building initiatives into PRSPs.

Second, concerning economic growth strategies, **PRSPs should target poverty-dominated growth sectors (e.g. agriculture)**. While macroeconomic stabilisation is a high priority in post-conflict countries, substantial adjustment costs should be avoided. The role of redistributive policies could be to manage conflicts, but PRSPs are seen to have a bias in funding social sectors that are not directly productive for long-term growth.

96 Obwona M., Guloba M. (2009). *Poverty reduction strategies during post-conflict recovery in Africa*. In: Journal of African Economies 2009: 1 – 22. See also: World Bank (2005). *Toward a conflict-sensitive poverty reduction strategy. Lessons from a retrospective analysis*. World Bank Report No. 32587.

Third, **PRSPs are impeded by serious institutional challenges as well as a lack of recent and comprehensive socio-economic (quantitative) data and a lack of experienced manpower to design and implement a multi-year strategy.** The state is often non-functional and is part of the conflict. An additional problem is that PRSPs often frame complex problems as purely technical and do not link them to insecurity or governance.

Fourth, **the emphasis of the PRSPs on intensifying civil society's participation is considered to be unattainable in a post-conflict situation.** In addition, it is argued that inclusive decision-making is under pressure and essential political issues will be considered too sensitive to be included.⁹⁷

Key documents

IMF (2008). *Poverty Reduction Strategy Papers (PRSP)*

Obwona M., Guloba M. (2009). *Poverty reduction strategies during post-conflict recovery in Africa.* In: *Journal of African Economies* 2009: 1 – 22

97 Klem B. (2004). *Using PRSPs in conflict affected Countries.* Netherlands Institute International Relations 'Clingendael'

3. Systematic discussion

The second chapter has presented the variety of policy and operational frameworks applied by the international community and domestic stakeholders in an early post-conflict situation. A short critical review has discussed the strengths and weaknesses of each framework. In a brief systematic discussion the next chapter tries to **disentangle the main background concepts behind the policy concepts and to inform the reader concerning the major challenges involved**. The discussion leads to the identification of a number of elements of a 'consolidated' framework representing the current state of thinking.

3.1 Background concepts and paradigms

Background concepts and paradigms on economic development as well as political processes form the basis of the policy frameworks and operational policies. The review of the 'state of the art' frameworks applied internationally results in two complementary findings:

First, **most frameworks and operational policies are a hybrid and an eclectic combination of heterogeneous concepts and paradigms** which make it difficult to disentangle, analytically, background concepts and economic paradigms. The problem is made worse by the fact that political documents are often a political consensus between conflicting positions and opinions.

Second, 'early recovery' in a post-conflict situation is by its very nature a **combination of different policy areas and schools of thought**. At least **four major strands** form the background concepts of 'early recovery':

- **humanitarian assistance frameworks**
- **economic growth** as well as **development theories**
- **peace-building** as well as **human security concepts**
- **governance** and **state-building models**

Furthermore, all four strands of thinking have within their own discipline strong discussions on the appropriate approach.

3.1.1 Emergency and humanitarian assistance

At one end of the continuum is the perspective of humanitarian assistance. Woodward conceptualizes the humanitarian approach to the early post-conflict situation as the Natural Disaster Model.⁹⁸ The main objectives of emergency assistance are to provide an immediate, visible peace dividend (food, shelter, basic services) and to help the population towards self-sufficiency. The guiding principles are rapid response and the use of local agents. The basic rationale is to support peace by quick and visible improvements in the well-being of the population. Longer-term economic objectives are usually not covered, since quick impact projects do not encompass a wider reflection on sector or economic policy. Moreover, the concept of conflict sensitivity has only partly been reflected in the humanitarian community, since humanitarian actors seem to be more familiar with working in conflict situations and think of themselves as being apolitical.⁹⁹

3.1.2 Inclusive and sustainable development

At the other end of the continuum lies the challenge of longer-term development. With respect to concepts, the policy frameworks often apply terms like ‘sustainable growth’, ‘broad-based’, ‘inclusive’ or ‘pro-poor’ growth. From the more general discussion in the policy frameworks, however, it is not easy to distil the economic paradigm behind these terms.

Even if the elements implied in the term ‘inclusive growth’ vary across policy frameworks, we refer here to the most common elements of an emerging New Consensus in development policy.

The New Consensus¹⁰⁰

Development must be market-based, but there are large market failures that cannot be ignored.

Government should not be in the business of direct production, as a general rule. Nevertheless, there is a broad, eclectic role for government in the following areas:

- Providing a stable macro-economic environment
- Infrastructure
- Public health, education and training
- Ensuring environmentally sustainable development and ecological protection
- Providing export incentives
- Helping the private sector to overcome coordination failures
- Ensuring ‘shared growth’ by acting to reduce poverty and inequality
- Provision of fundamental public goods (legal structure, protection of property rights)

The New Consensus is a reaction to the free-market approach of the Washington Consensus in the 1980s and early 1990s. In this concept, government was more seen to hinder growth and poverty reduction should ‘trickle down’ from economic growth. In the New Consensus, the government is given a broader role in development, even if constrained government resources force significant prioritizations. While the New Consensus focuses explicitly on poverty reduction and ‘shared growth’, free-market elements are also accepted as being relevant. But market failures can be addressed by the government and can be worse than government failures. Thus [...] *a key part of government’s role is to help to secure the foundations for economic development by ensuring that the requirements for an effective market-based economy are met.*¹⁰¹ Translating the basic economic rationale of the New Consensus into the post-conflict situation is a major challenge, since the post-war reconstruction period poses additional political and security constraints on economic policy.

98 Woodward, S.L. (2002). *Economic Priorities for Successful Peace Implementation*, in: Stedman S.J., Rothchild D., Cousens, E.M. (ed.) (2002). *Ending civil wars. The implementation of peace agreements*

99 Pfaffenholz T., Reyhler L. (2007). *Aid for Peace. A Guide to Planning and Evaluation for Conflict Zones*

100 Todaro M.P., Smith S.C. (2009). *Economic Development*

101 Todaro M.P., Smith S.C. (2009). *Economic Development*

At a more fundamental level of the discussion on long-term development is the question, as Addison and Brueck have posed it: *Should we be looking to 'reconstruct' societies or to 'transform' them?*¹⁰² Pre-war countries may have had institutional and economic structures which were not conducive to long-term growth and peace. In addition, post-conflict countries may have changed dramatically during war hindering a return to a pre-conflict situation. Transforming societies on a more fundamental level, however, may be 'interventionist' and impossible if not emerging from inside the country.

3.1.3 *Peace-building and human security*

Early post-conflict recovery is mainly discussed in the context of peace-building and security. The UN report entitled 'An Agenda for Peace' (1992) deepened the debate on post-conflict peace-building.¹⁰³ Since the 1994 Rwandan genocide, the debate centred on early warning and the prevention of conflicts. Research on the negative effects of development policy on conflict widened the debate on the nexus between peace and development.¹⁰⁴

As a result of the discussions on the linkages between conflict, peace and development, many peace-building approaches and tools (for example, conflict analysis framework) were imported into the development field. In addition, the definition and understanding of peace building has been enlarged with respect to its content and duration. In this context, development policy is seen to contribute to peace building, even if poverty reduction in itself may not directly lead to peace.¹⁰⁵

Related to the discussion on the development-security nexus is the **human security** paradigm constantly referred to in the frameworks. While it has been debated since the 1980s in academic circles, the concept was globally promoted in the UNDP Human Development Report of 1994. By challenging the state-centred perspective of national security approaches, proponents emphasize the central role of the individual in security. 'Freedom from want' and 'freedom from fear' for all persons is accepted as the best way to tackle issues of insecurity. The thrust of the paradigm is to include seven areas of threat into the scope of global security: economic, food, health, environmental, personal, community as well as political security. However, no single definition of the concept is currently accepted on a global basis.¹⁰⁶

From an implementation perspective, two major schools can be distinguished. Proponents of **freedom from fear** seek to limit the practice of Human Security to protecting individuals from violent conflicts. Emergency assistance, conflict prevention and peace-building are the main areas of concern. Proponents of **freedom from want** expand the focus beyond violence and advocate a holistic approach in achieving human security including hunger, disease and natural disasters.

In general, human security and development are closely related. Human security is a necessary precondition for development, while development contributes to human security. Realist thinkers dismiss the concept due to analytical reasons and broadness. By accepting basic socio-economic threats as a security problem, the concept risks being tautological with respect to human development and may conceal the causal links between socio-economic policy and security. In addition, the concept has been criticized as being far too broad to be used as a

102 Addison T., Brueck T. (2008). *The Multi-dimensional Challenge of Mass Violent Conflict* in: Addison T., Brueck T. (2008). *Making peace work. The challenges of social and economic reconstruction*

103 The discourse on post-conflict peace-building focused on two debates. The first discusses the conditions for the successful implementation of post-conflict peace-building. Conditions encompass power-sharing agreements between former conflicting parties, international commitment to the process and security guarantees. The second is highly critical of the 'liberal internationalism' paradigm which proposes to transform states into stable market democracies as the best way to consolidate peace.

104 Anderson M. B. (1999). *Do no harm: how aid can support peace – or war*

105 Pfaffenholz T., Reyhler L. (2007). *Aid for Peace. A Guide to Planning and Evaluation for Conflict Zones*

106 Tadjbakhsh S. (2005). *Human security: concept and implications*. CERI studies No. 117 – 118.

policy tool.¹⁰⁷ Advocates of a broad definition emphasize that insistence on narrow definitions of security reveal the concentration on relations of power in security studies.¹⁰⁸ Finally, recent research is aimed at the fact that international organizations may have distorted the original universal concept into a toolbox which serves only external relations purposes.¹⁰⁹

3.1.4 State-building and governance

Most policy frameworks embed the discussion on early post-conflict recovery in a broader framework of ‘fragile states’.¹¹⁰ While we will not embark on a deeper analysis of fragility in this report, the objective of state-building and governance in relation to socio-economic recovery should be briefly outlined.¹¹¹

State-building is seen as a decisive factor for stabilization and the translation of early recovery activities into long-term development.¹¹² The restoration of the state’s capability should include the creation of professional public administration and civil service, the establishment of mechanisms for oversight, accountability and financial controls as well as the rebuilding of representative and inclusive political institutions. The restoration of critical attributes of functioning states like authority, legitimacy and effectiveness is usually accepted to be long term and depends on specific political dynamics in each country. The failure of the social contract and its re-establishment is the basic rationale for state-building. State-building is advocated since states are often very much involved in the onset of conflicts and state fragility is a key reason for violent conflict.

State-building is closely related to the concept of governance.¹¹³ In the context of worldwide national regime transitions and democratisation efforts in the early 1990s, the concept of governance has played a formative role informing development theory and policy. In particular, the concept of ‘good governance’ has been promoted by the World Bank and other development organisations.¹¹⁴ The focus has been shifted from the role of the market to the importance of sound public institutions to provide the preconditions for development and economic growth.¹¹⁵ In the context of early post-conflict, second-best institutions may be the only objective which is achievable.¹¹⁶

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- 107 Paris R. (2001). *Human security, paradigm shift or hot air?* **In:** International Security 26/2: 87 – 102, Tadjbakhsh S. (2005). *Human security: concept and implications*. CERI studies No. 117 – 118.
- 108 Tadjbakhsh S. (2005). *Human security: concept and implications*. CERI studies No. 117 – 118.
- 109 Tadjbakhsh S. (2007). *Human security in international organizations: blessing or scourge?* **In:** Human security Journal 4: 8 - 16
- 110 See for a further discussion on fragile states and state-building: Anten L. (2009). *Fragile states: state building is not enough* **in:** de Zwaan, J., Bakker E., van der Meer S. (eds). *Challenges in a Changing World*
- 111 For deeper insights see Anten L. (2009). *Strengthening Governance in Post-Conflict States* Clingendael Institute – Conflict Research Unit
- 112 OECD (2007). *Principles for Good International Engagement in fragile states*
- 113 In the broadest sense, governance refers to the structures and relations of a society, i.e. the principles, procedures, relationships, and rules, by which the total social, political, and economic life of a society is governed. The concept of governance thus seeks to understand institutional frameworks within which public decisions and policies are made in increasingly complex societal systems. See Leftwich, Adrian (2007). *Changing Configurations of the Developmental State*. In Huque/Zafarulla (eds). Huque, Ahme Shafiqul and Habib Zafarullah (Eds) (2007). *International Development Governance: 51 – 74*; Hyden, Goran et al. (2004). *Making Sense of Governance: Empirical Evidence from 16 Countries*. Lynne Rienner Publishers
- 114 See World Bank (1989). *Sub-Saharan Africa. From Crisis to Sustainable Growth. A long-term perspective study*, Washington DC: The World Bank., World Bank (1992). *Governance and Development*, Washington DC: The World Bank., World Bank (1994). *Governance: The World Bank’s Experience*. Washington DC: The World Bank.
- 115 Rodrik D., Subramanian A., Trebbi F. (2002). *Institutions rule: the primacy of institutions over geography and integration in economic development*, NBER Working Paper 9305
- 116 Rodrik D. (2008). *Second-best Institutions*

Recent research has criticized the state-building approach of most policy frameworks to transfer Western universal values of the state and democracy to remedy local problems in post-conflict situations. Social practices, values as well as political traditions might only weakly match universal values of state-building activities. State-building policies are wrongly oriented towards the Western-style Weberian-Westphalian sovereign state instead of integrating hybrid political orders in policy formulation and implementation.¹¹⁷ Moreover, state-building has the difficult task of balancing the respect for deeply embedded political and economic structures with the need to introduce new approaches. Finally, short-term imperatives like the bargain with ruling elites may often conflict with longer-term objectives.¹¹⁸

3.2 Policy and analytical frameworks

The critical review of the frameworks and operational policies has been done systematically with **five guiding questions**:

What is the relation and what are the trade-offs between strategic objectives and peace-building as well as security and development?

How are conflict and socio-economic development analytically integrated?

How is the 'transition' phase methodologically conceptualized?

What is the relation between short-term (quick impact) and long-term development objectives?

How to deal with the issue of sequence and prioritization and what are the criteria?

In this part we will discuss our findings and delineate the key dilemmas.

3.2.1 *Relations and trade-offs between strategic objectives: peace-building as well as security and development*

The key to a decision on socio-economic policies in an early post-conflict situation is the definition of strategic objectives and the awareness of possible trade-offs. At least two 'overarching' objectives are relevant in an early recovery situation: **peace-building through the avoidance of relapses to conflict and medium to longer-term socio-economic development**. The relation between peace-building and development, however, is not as clear-cut as one might wish. A review of the frameworks provides at least two statements:

- development and peace-building (conflict) are interdependent and both are simultaneously relevant
- peace-building is the overarching aim and development has a supportive role during post-conflict transition

At the core of the problem concerning the relation between economic development activities and peace-building is the question of **how conflict and development are interrelated**. Put differently: How does the economy impact on conflict as well as peace-building and what are the effects of war and peace-building on the economy?

117 **Hybrid political orders** mean that states combine formal Weberian state institutions with 'informal' indigenous societal institutions. In many local areas customary non-state institutions of governance may replace formal institutions. Customary law, traditional societal structures as well as traditional authorities determine the life of large parts of the population in developing countries. See Boege V., Brown A., Clements K., Nolan A. (2009). *On hybrid political orders and emerging states: What is failing – states in the global south or research and politics in the West?*, www.berghof-handbook.net

118 Paris R., Sisk T. D. (2007). *Conclusion. Confronting the contradictions in: Paris R., Sisk T.D. (Eds). The dilemmas of statebuilding. Confronting the contradictions of post-war peace operations*

Are economic policies and development activities able to address causes of conflict and what are the causal links between them?

In this context, Addison/Brueck (2009) distinguish between two economic activities in a post-conflict situation. On the one side, economic activities could be **drivers of conflict** (e.g. blood diamonds, extractive industries; illegal arms/timber trading; trafficking in women and drugs; illicit financial flows; corruption). On the other side, **economic activities are driven by conflict**. Farming, trading and services are affected by conflict to a varying degree depending on the vulnerability of the household. Thus war economies often result in a new coping strategy for economic agents.

A related question is **whether one should target scarce resources in an early recovery setting only on conflict-avoiding projects or should they also address other development goals to achieve peace indirectly**. The answer to this question could result in a serious trade-off between both objectives and is dependent on a political bargaining process. Moreover, the trade-off is more critical in the short term where stabilization objectives may dominate more development-oriented activities.

To get a more visual impression of the assumption made in the policy frameworks on the relation between peace-building and development, we use the following simple distinction:

Socio-economic policy in an early post-conflict situation

Negative effects on peace	Indirect effect on peace Medium to longer-term development	Direct effect on peace Avoid relapses into conflict
Assumption: Development policy should avoid negative effects on conflict The ‘do no harm’ approach (Anderson 1999).	Assumption: Medium to long-term development could support peace-building	Assumption: Development policy can address the causes of conflict

This distinction needs some explanation. The first column states that socio-economic policy in general should not have a negative effect on conflicts or promote a relapse into conflict.¹¹⁹ While theoretically correct, we advocate a realistic application of this principle. Due to the fact that resources are limited, there is lack of data and the capacities in post-conflict situations are weak, a too strict application of this principle might simply hinder the execution of urgent short-term activities.

The second column models the relation between development and peace more indirectly. Taking into consideration that not every socio-economic policy is able to address the causes of conflict directly, the basic assumption here is that medium to longer-term development in itself might support peace-building. An important question is whether and how a war and coping economy can transform itself into a positive development path supporting peace-building and stability. Vested interests and elites might forcefully hinder attempts to establish broad-based economic growth. Increased inequality and exclusion, on the other hand, may further heighten social tensions and the risk of conflict.¹²⁰ To put it in economic terms: how can one achieve economic growth that enhances stability in a post-conflict country where the binding constraints lie in the economic and political legacy of the war?

119 Anderson M.B. (1999). *Do no harm: How aid can support peace – or war*

120 We are aware of the conflicting views on the positive or negative effect of economic growth on conflict in the literature. This report will not further elaborate on the rich theoretical literature here, which we propose to do in a follow-up study.

The third approach makes the assumption that socio-economic policy can directly address causes of conflict.¹²¹ Development policy should support peace by avoiding relapses into conflict. Possible activities are e.g. the reintegration of ex-combatants or control regimes against economic drivers of conflict (see with respect to other activities in each priority area in chapter 4). To address directly causes of conflict with socio-economic activities, a clarification of the causal links between conflict and socio-economic policy with the help of context-specific analysis is important.

3.2.2 Analytical integration of socio-economic development and conflict

The analytical discussion on the causal links between socio-economic development and conflict is integrated in the policy frameworks with reference to the concept of conflict sensitivity.

Conflict sensitivity can be defined as the [...] *ability to understand the interaction between humanitarian, development and other interventions and the (conflict) context, and to act upon this understanding to avoid negative impacts and maximize positive contributions.*¹²²

Before we elaborate more on the socio-economic causes of conflict, we start with a short explanation of the idea of ‘conflict cycle’. This concept is helpful to further understand the conceptualization of conflict and the distinction between the root or structural causes of conflict as well as more proximate reasons for conflict after the end of war. Generally, the concept of ‘conflict cycle’ refers to three phases. Before a conflict, the country is at risk. The objective of development policy is conflict prevention by addressing the root causes of conflict. In the conflict phase, the only possible socio-economic interventions are in the domain of humanitarian assistance. After the conflict, development policy should contribute to avoiding relapses into conflict and foster long-term development. Thus the objective of development is to address the root or structural causes of conflict plus the additional challenges of a (post-) war economy.

Several conceptualizations of conflict causes and conflict analysis tools are applied within the frameworks to integrate conflict sensitivity into development activities. In our discussion, we follow the distinction used in the Post Conflict Needs Assessment.¹²³ In its conflict and peace process analysis, two conflict reasons are proposed:

root or structural causes of the former conflict: Long-term, structural root causes, which lay at the heart of the conflict (e.g. unequal access to land or education, competition over natural resources, growing horizontal inequalities)¹²⁴

121 The Peace and Conflict Assessment (PCA) uses a C marker classification as an analogy to the OECD. C markers reflect the strategic and conflict-sensitive design of development cooperation measures and are assigned to all projects in conflict or post-conflict countries. C2: Conflict transformation and peace-building are an overall objective of the project. C1: Conflict transformation and peace-building are an important part, but not in themselves crucial to its implementation. C0: Conflict transformation and peace-building are not an explicit objective of the project.

122 See UNDG/UNDP/World Bank (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*. New York (PCNA)

123 See UNDG/UNDP/World Bank (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*. New York (PCNA)

124 **Root causes of conflict**’ is not a clearly defined concept. **Cultural approaches** see the cause of war as the political consequences of cultural differences (‘ethnic conflict’). Empirical evidence on ethnicity as a risk factor, however, is conflicting. A modern variant of this idea is the concept of horizontal inequalities proposed by Francis Stewart (see chapter 4.13). **Economic approaches** state that war is caused by rebels seeking economic gain. Decreasing growth rates (a proxy for decreasing opportunity costs of joining a rebellion) and low overall GDP per capita (a proxy for weaker government finances) are highly positively correlated with the onset of civil war. See Collier, Hoeffler (2004). *Greed and Grievance in Civil War In*: Oxford Economic Papers 56: 563 – 595; Fearon J., Laitin D. (2003). *Ethnicity, Insurgency and Civil war in*: Helpman E. (ed.) *Institutions and Economic Performance*. Boston; Stewart (ed.) (2008). *Horizontal inequalities and conflict. Understanding group violence in multiethnic societies*. Palgrave Macmillan. The correlation between the dependence of a country on primary commodity exports (a proxy for rebel finance, poor

destabilizing or proximate factors generated by the conflict: In longer-lasting conflicts the root causes become less and less important. Violent conflicts deeply transform the states, economies, societies and interests. The illegal war economy may create vested interests in instability, while a culture of violence may become entrenched among communities. Once established, these structures may prove to be extremely resilient and become an obstacle to the peace process.¹²⁵

The term ‘war economy’ describes the fact that economic processes may have changed fundamentally during a conflict and may lead to criminalization and new opportunities for specific social groups.¹²⁶ War economies can set the country on a negative development path with weak incentives to change this development path. This trap may be an example of ‘path dependence’, a condition in which the past conditions (war) affect future conditions. One of the major challenges for economic policy in a post-conflict situation is to set the country on a more positive development path.

Some of the policy frameworks require addressing the root causes of conflict in the very early post-conflict situation. The reference to proximate causes, however, is weaker, even if these conflict factors might be more pressing in the immediate aftermath of a crisis.

This report takes a **balanced view in addressing structural and proximate causes of conflict in the early post-conflict situation**.

The literature on conflict and development states that the root causes of conflict are (...) *only latent factors that may expose a country to risk once certain trigger factors are activated*.¹²⁷ Put simply: we do not know exactly how country-specific trigger factors (e.g. regime changes and military coups, neighbouring conflicts or dramatic events like the assassination of a prominent (political) personality) and the root causes of conflict are related. In addition, root causes are by definition deep structural problems within a country which have developed over the years and will usually take many years to reform. An early post-conflict situation may be a window of opportunity to reform structural causes, but possible destabilizing effects of addressing root causes have to be taken into account. Nevertheless, addressing structural causes like low economic growth and poverty are important ways to integrate ex-combatants as well as internally displaced people and to enhance the well-being of the conflict-affected population.

governance, and increased exposure to economic shocks) and conflict, however, is empirically ambiguous. Collier, Hoeffler (2004). *Greed and Grievance in Civil War* **In**: Oxford Economic Papers 56: 563 – 595. **Governance approaches** see the primary causes of fragility and conflict as weak institutions and bad governance. On a discussion of foundational causes of fragility, see Anten, L. (2008). *Strengthening Governance in Post-Conflict Fragile states*. Issues Paper. Conflict Research Institute – Clingendael.

125 Typical factors cover idle and poorly controlled armed groups; uncontrolled arms circulation; widespread unemployment; large numbers of IDPs or refugees; a destroyed infrastructure and production facilities; a rise in criminal and interpersonal violence; weak political institutions; competition between political/social groups over the control of incoming aid flows; a strong illicit economy; dysfunctional health and education services; and mistrust and a desire for revenge. See UNDP, World Bank, UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations*.

126 Woodward S. L. (2009). *Do the root causes of civil war matter?* **In**: Chandler D. (ed.) *State-building and Intervention, policies, practices and paradigms*. Routledge, London and New York

127 African Development Report 2008/2009. *Conflict Resolution, Peace and Reconstruction in Africa*

However, root causes may not be the most urgent problem in order to avoid relapses into conflict. Proximate factors generated by the conflict might be the more immediate layer to target.¹²⁸ Thus a thorough context analysis should reveal which are the risk factors of conflict in the *current* situation and how they can be targeted by socio-economic policy. At the same time, addressing the needs of the rest of population who are not involved in violent activities and designing a medium to long-term development strategy is an important complementary objective of socio-economic policy to support the peace process indirectly by safeguarding the sustainability of the short-term approaches.

3.2.3 Time span and phases

Even if not every policy framework defines explicitly the length of time with respect to early recovery, a common consensus centres around 2 – 3 years after the end of conflict. The discussion on the length of the ‘transition’ period is embedded in a categorization of different phases after the end of conflict. Most typologies broadly distinguish between three phases:¹²⁹

Phase (time span)	Goal
Emergency phase (12 months)	Provide for emergency humanitarian needs
Transformation phase (12 – 36 months)	Establish a foundation for development
Development phase (4 – 10 years)	Institutionalize a long-term development programme

Each phase is assigned a list of core tasks, which slightly differ between the frameworks. Within this sequence, ‘early recovery’ could approximately cover the first two phases.

The idea of categorizing different phases of a post-conflict situation on the basis of common experience in post-conflict country systems is reminiscent of Rostow’s theory of stages of economic growth. In general, each stage is associated with a specific set of socio-economic policies. The basic assumption is that post-conflict countries pass broadly through identical stages in the post-conflict reconstruction process, even if reversals are admitted and the linearity of the process is denied.

*The phases should not be understood as absolute, fixed, time-bound or having clear boundaries. [...] Similarly, different geographic, ethnic, language or religious regions or groups within a country emerging from conflict are likely to be in different phases*¹³⁰.

While the categorization of phases may be a first starting point, some frameworks correctly accentuate the fluidity and non-linearity of early post-conflict phases and emphasize the constant overlapping of these stages. Finally, recovery is better conceptualized as an open process which usually takes more time than is supposed in the development phase.

128 Woodward S. L. (2009). *Do the root causes of civil war matter?* In: Chandler D. (ed.) *State-building and Intervention, policies, practices and paradigms*. Routledge, London and New York

129 UNDG (2004). *Practical Guide to Multilateral Needs Assessments in Post-Conflict Situations (PCNAs)*, U.S. Army and Center for Strategic and International Studies (2002). *Post-Conflict Reconstruction. Task Framework*

130 Nepal (2005). *African Post-Conflict Reconstruction Policy Framework*

3.2.4 Trade-offs between short-term relief mechanisms and long-term development objectives

The concept of time phases is closely related to the question of how short-term relief mechanisms and longer-term development issues should be aligned in the early recovery situation. **Accepting a fluid and overlapping transition process as empirical evidence, both short-term and medium to longer-term development objectives have to be taken into consideration in the early post-conflict situation.**

Policy makers may face serious trade-offs in deciding between short and longer-term goals. Short-term and longer-term activities follow different economic models and fulfil different strategic objectives. Short-term activities aim at stabilization as well as a visible peace-dividend and address the immediate needs of individuals affected by the conflict. On the other hand, development policies usually think in longer-term structural socio-economic objectives with a poverty as well as inequality-reducing perspective.

Effective, short-term solutions may not always be economically efficient in the long term, but may be important in a post-conflict situation.¹³¹ Resources might have to focus in the short term on former combatants or deactivating ‘spoilers’ to ensure stability instead of supporting growth-enhancing activities for the rest of the population.¹³² Economic stabilisation programmes with recommendations for rigid fiscal and monetary discipline can make short-term stabilisation impossible. Thus one of the main challenges for economic policy is to find the right balance between the consolidation of political stability and not jeopardizing economic stability.

The pressure to act urgently so as to take advantage of an early window of opportunity for reform can undermine the government’s perceived legitimacy.¹³³ Given the difficulty of working through bureaucratic agencies at higher levels, short-term approaches may bypass government institutions, creating ‘parallel structures’ and thus they face the risk of hindering capacity building and the establishment of government legitimacy for longer-term development.¹³⁴ Parallel mechanisms risk undermining state structures and government authority.¹³⁵ Further trade-offs between short and long-term objectives are analyzed under each economic priority area in chapter 4.

A more systematic analysis with respect to economic growth is usually not applied in the policy frameworks. Most approaches elaborate on the integration of short and long-term aspects, but indicate only a list of more or less related key activities in the early recovery phase. Taking into consideration the highly political environment and the presence of an informal as well as criminal economy in a post-conflict situation, a multidisciplinary approach combining economic growth analysis with political economy approaches is helpful in answering the questions of what economic policies would be best to achieve sustainable growth and how one can deal with political and capacity constraints that stand in the way of adopting those policies.

3.2.5 Sequence and prioritization

Closely related to the discussion on trade-offs between short-term and long-term objectives is the critical issue of sequencing and prioritization in an early post-conflict situation. In general, prioritization and sequencing

131 *Effectiveness* here means that doing what works without regard for its sustainability or economic cost. *Efficiency* is here defined in terms of the least economic costs in the long term. See USAID (2009). *Guide to Economic Growth in Post-Conflict Countries*

132 Paris R., Sisk T.D. (2009). *Conclusion. Confronting the contradictions in:* Paris R., Sisk T.D. (eds.) *The dilemmas for state-building. Confronting the contradictions of post-war peace operations;* Addison T., Brueck T. (2009). *The multi-dimensional challenge of mass violent conflict in:* Addison T., Brueck T. (2009). *Making peace work. The challenges of social and economic reconstruction*

133 USAID (2009). *Guide to Economic Growth in Post-Conflict Countries*

134 Manor J. (2007). *Aid that works.*

135 Carnahan M., Lockhart C. (2008). *Peacebuilding and Public Finance in:* Call C.T. (ed. 2008). *Building states to build peace*

critically depend on the initial conditions, domestic capabilities, and the availability of foreign financing as well as private remittances.¹³⁶ The Early Recovery Policy Forum in Copenhagen proposes [...] *investment in priority sectors in which the initial early recovery analysis indicates potential for significant longer-term gains, such as support for durable solutions for displaced populations, agriculture, livelihoods.*¹³⁷

A recent study, however, comes to the conclusion that frameworks for prioritization and dynamic strategies are absent. In general, policy frameworks are described as a list of priority areas, but not a guide to prioritization or dynamic processes. On a more fundamental level, the efforts to develop standardized frameworks for prioritization are seen to be futile. The main reason for this is the inherently political nature of a peace process which requires efforts to build national capacity for self-managed recovery and to reinforce support for the peace process from key elites. In addition, prioritization without authority is assumed to be impossible.¹³⁸

A related sequencing problem is the debate on the trade-off between **humanitarian and reconstruction aid**. In a more rigorous economic analysis, Demekas et al. (2002) come to the conclusion that humanitarian aid reduces long-term capital accumulation and growth in a post-conflict situation, while reconstruction aid may increase the long-run capital stock and, carefully managed, may avoid Dutch disease problems. In the short-term, however, humanitarian aid is considered to be welfare enhancing by directly addressing urgent basic humanitarian needs.

Thus the main trade-off is how long humanitarian aid should support basic consumption needs in early recovery and when reconstruction aid should be favoured to prevent distortions and dependencies. The authors recommend that humanitarian aid has the greatest welfare impact in the immediate post-conflict phase. Furthermore, modest consumption targets combined with quick and short-lived rates of disbursement are considered to have the weakest negative effect on long-term development. Dispensing humanitarian aid for too long may risk creating aid dependency by, for example, reducing the incentive for people in camps to return home to a productive life.¹³⁹

136 Del Castillo G. (2008). *Rebuilding war-torn states*

137 Ministry of Foreign Affairs of Denmark (2008). *Early Recovery Policy Forum in Copenhagen 3 October 2008: Joint Action for Strengthening International Support to Early Recovery*

138 NYU Center on International Cooperation (2008). *Recovering from War. Gaps in early action*

139 See Demekas D.G., McHugh J., Kosma T. (2002) *The Economics of Post Conflict Aid*, IMF Working Paper 02/198

Summary of chapter 3

A policy framework on early recovery needs to integrate a multidisciplinary approach covering humanitarian assistance, economic growth and development, peace-building and security, and governance as well as state-building.

The objectives of socio-economic policy in early post-conflict recovery are to avoid negative effects aggravating conflict, to avoid relapses into armed conflict and to support peace-building via development activities.

Economic activities can be the drivers of conflict and can be driven by conflict. However, the inter-linkages between economic activities as well as conflict are not clear and very much depend on the specific context.

A balanced view in addressing both structural and proximate causes of conflict in the early post-conflict situation is needed.

The root causes of former conflict are latent factors that may expose a country to risk once certain trigger factors are activated. The relation between country-specific trigger factors and root causes is not clear. Trigger factors are difficult to address.

Proximate and destabilizing conflict factors are the immediate layer and possibly the only factor which could be addressed realistically with short-term results. Nevertheless, economic growth and poverty reduction are important to stabilise the situation in the medium to long term.

Post-conflict recovery is a fluid, non-linear and open process requiring a combination of short and long-term activities dependent on the country context.

Policy makers face serious trade-offs in deciding between short and long-term goals. Effective, short-term solutions may not always be economically efficient in the long term, but may be important in a post-conflict situation.

One of the main challenges for economic policy is to find the right balance between the consolidation of political stability and not jeopardizing economic stability.

Prioritization and sequencing critically depend on a country-specific economic growth and political economy analysis and a subsequent formulation of economic policies.

4. Stylized facts and binding constraints

The basic idea of chapter 4 is to present stylized facts and binding constraints from cross-country as well as comparative country experience.¹⁴⁰ We are aware of the fact that there is no prioritizing standard framework: each context needs specific political and economic analysis. Nevertheless, we think that a comparison of heterogeneous country experiences is important to reveal common issues and serves as an organizing framework for priority areas.

Before we elaborate in further detail on stylized facts and binding constraints in an early post-conflict situation, **two methodological points** have to be discussed.

First, socio-economic policies are embedded in a post-conflict economy which is different from more advanced economies. To stress the difference of (post-) conflict economies, Goodhand identifies three types of economies with most (post-) conflict economies displaying features of all three.¹⁴¹ The term **combat economy** includes the production, mobilization and allocation of economic resources to sustain a conflict and economic strategies of war to destruct resources of opposing groups. A **shadow economy** means the existence of significant economic activities outside the legal framework. Key actors may be ‘conflict profiteers’ like entrepreneurial elites and organized crime who tend to profit from corruption and weak institutional arrangements. **Coping economies** encompass economic activities by the civilian population to cope and survive in a (post-) conflict economy.¹⁴² Comprehensive knowledge of the post-conflict economy is vital in deciding which socio-economic policy is relevant to build peace and develop the country.

A second methodological issue is the problem of how to derive binding constraints in a post-conflict economy. **‘Binding constraints’** is a term which has been borrowed from the concept of Growth Diagnostics.¹⁴³ The basic

140 ‘**Stylized facts**’ mean ‘broad economic tendencies’ of an early post-conflict situation. The idea of ‘stylized facts’ is usually applied in the context of economic growth.

141 Goodhand J. (2004). *From War Economy to Peace Economy? Reconstruction and State Building in Afghanistan*. In: *Journal of International Affairs* 58

142 Another possible categorization would be between a formal, informal, and criminal economy. Criminal economic activities encompass a broad range of criminal and para-criminal activities. See Kamphuis B. (2005). *Economic Policy for Building Peace* In: Junne G. Verkoren W. (Eds.). *Post-conflict Development. Meeting New Challenges*

143 See Hausmann, Rodrik, Velasco (2004). *Growth Diagnostics*; Hausmann R., Klinger B., Wagner R. (2008). *Doing Growth Diagnostics in Practice: A Mindbook*, CID Working Paper No. 177, Harvard University

idea is that economic growth is prevented by country-specific constraints such as, for example, a destroyed infrastructure or weak governance in an early post-conflict situation. Standard economic growth theory assumes that one constraint may be substituted by other growth factors. The Growth Diagnostics approach highlights the fact that one or more growth determinants could be binding. Thus without prioritizing the most binding constraints, the addressed objective is only achieved to a minor extent.¹⁴⁴ One example in early post-conflict recovery would be the reintegration of ex-combatants, which might be binding in the sense that, without prioritizing reintegration, peace building and development might be impossible.

While it was developed as an analytical tool for economic growth, the analytical framework of Growth Diagnostics contains some lessons for the early post-conflict situation. The conceptualization of growth constraints as complements rather than substitutes extends to the heart of the sequencing and prioritizing question. To put it differently: Is every economic policy equally important with respect to its impact on peace and development or is it possible to prioritize activities. Second, the approach indicates a set of possible constraints based on an economic growth framework which hinder private investment and entrepreneurship in the short run. Thus the list of constraints offers a first organizing framework for defining priorities.

In general, growth diagnostics is one of several frameworks for broad-based growth analysis. The application of the growth diagnostics approach makes sense in a post-conflict situation, if we assume that there is an environment of low income levels, slow growth, and low investment. However, if growth is concentrated in a few sectors or specific types of economic actors, the growth diagnostics framework should be modified and supplemented with an analysis of constraints in the slow-growing and emerging sectors, and the constraints on individuals in contributing to and benefiting from growth as proposed in a recently Inclusive Growth Analysis framework.¹⁴⁵

On the methodological side the question remains whether the growth diagnostic framework is helpful for economic policy recommendations in a post-conflict economy. Key problems are in the area of weak data as well as the information gap in defining binding constraints and whether the informal and war economy can be appropriately captured by the approach. In addition, the concept does not reveal the trade-offs and tensions between the binding constraints and it also does not encompass the distributional aspect of economic policy such as, for example, horizontal inequalities as a conflict risk factor. Moreover, the growth diagnostics framework neglects the political economy dimension of an early post-conflict situation.¹⁴⁶ The most important pitfall of the Growth Diagnostics approach for our purpose is that the overarching aim is only private investment and entrepreneurship. Thus the perspective of conflict and peace-building is not included in the original framework.

To sum up the methodological issues, we apply the concept of growth diagnosis as a starting background framework to define binding constraints, but extend it to the state and peace-building problem of an early post-conflict situation. Thus we highlight the specific issues of the post-war economy and the political aspects within the discussion on growth determinants. While not being captured comprehensively in this report, we finally emphasize the role of external economic impact factors in the early transition phase, which are especially important due to the regional context of small African countries. The external environment encompasses, among other things, the global and regional economy as well as the effects of the donor's own economic policy on post-conflict countries like, for example, the rich countries' trade protectionism or agricultural policy.¹⁴⁷

144 A related reason is that targeting all economic distortions simultaneously may be relevant but not feasible in a post-conflict environment due to financial and capacity constraints as well as limited political capital to engage in wholesale reform.

145 See Ianchovichina E., Lundstrom S. (2009) *Inclusive Growth Analysis. Framework and Application*. World Bank Policy Research Working Paper 4851

146 Recent activities of major donors stress the integration of political economy and growth analysis. See DFID, World Bank (2008). *Strengthening political economy understanding for growth analysis*

147 Addison T. (2005). *Post-conflict recovery. Does the global economy work for peace?* UNU-Wider Discussion Paper No. 2005/05

In the following we present priority areas of early economic recovery by comparatively describing their role in post-conflict countries, indicating their possible direct or indirect effects on conflict, elaborating on the trade-offs between short-term and long-term objectives and proposing policy recommendations.

4.1 Reintegration of ex-combatants and special groups (IDPs, refugees)

The reintegration of ex-combatants, dependants of combatants and other special groups like internally displaced people (IDPs), as well as returning refugees, is vital after the end of war, since their greater vulnerability or their potential neglect may lead to a relapse into conflict.

The objective of a DDR process is to contribute to security and stability in post-conflict situations by disarming, demobilizing and reintegrating former combatants left without livelihoods or support networks.¹⁴⁸ DDR is a complex process, combining political, military, security, humanitarian and socio-economic dimensions. While DDR is an essential part of a peace process and may help to mitigate conflict, it cannot alone resolve conflict or prevent violence or produce development in itself.¹⁴⁹

In the literature, the term ‘reintegration’ has commonly been used for both reinsertion and reintegration activities of the DDR process. In general, activities may include vocational training, apprenticeships, formal education, counselling as well as medical services, financial and start-up support for agriculture and alternative livelihoods or temporary employment opportunities.¹⁵⁰ However, practices show that reintegration programmes have often been limited to resettlement and reinsertion assistance only.¹⁵¹

The scope of the reintegration phase of DDR programmes is a matter of considerable discussion, ranging from an emphasis on the security objective by targeting only ex-combatants to advocating longer-term socio-economic objectives by extending assistance to communities.¹⁵²

One aspect is the relation between the short-term and long-term objectives of reintegration. The debate centres mainly on the question of how far reintegration should capture longer-term socio-economic objectives. In this context, the UN suggests that longer-term reintegration should not be part of a DDR process. However, reintegration assistance should be linked more closely to broader economic development activities.

The literature also discusses the question of the primary target groups of DDR programmes ranging from former combatants and their dependants to community rehabilitation. Proponents of the first position point to the conflict-reducing objective of the DDR process by targeting former combatants. Critics argue, however, that communities have to be involved so as to improve their capacity to integrate former combatants and to increase

148 **Disarmament** means the collection, documentation, control and disposal of small arms, ammunition, explosives as well as light and heavy weapons of combatants and often also the civilian population. **Demobilization** is the formal and controlled discharge of active combatants from armed forces or other armed groups. Reinsertion is the transitional assistance offered to ex-combatants during demobilization but prior to reintegration. **Reintegration** is the long-term social and economic process by which ex-combatants acquire civilian status and gain sustainable employment and income. See: <http://www.unddr.org/whatisddr.php>

149 Van de Goor L., Ball N. (2006). *Disarmament, Demobilization and Reintegration. Mapping Issues, Dilemmas and Guiding Principles*. Netherlands Institute for International Relations ‘Clingendael’, Conflict Research Unit

150 UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*

151 Reinsertion is the assistance offered to ex-combatants during demobilization but prior to the longer-term process of reintegration. Reinsertion is short-term material and/or financial assistance to meet immediate needs. See Douma P., Van Laar S., with Klem B (2008). *The struggle after combat: the role of NGOs in DDR processes, DRC Case study* Cordaid 2008

152 Specker L. (2008). *The R-Phase of DDR processes. An Overview of Key Lessons Learned and Practical experiences*

tolerance as well as reconciliation. Furthermore, granting only ex-combatants special treatment may increase hostility within the larger communities. Thus finding the right balance between addressing former combatants' specific needs and those of larger communities may be essential.¹⁵³

A related problem is that women and child ex-combatants have often not been part of the DDR process. However, women and child ex-combatants require a wide variety of special services including social services, access to credit, training or education. In addition, special arrangements may be necessary for the dependants of former combatants who have often been coerced wives or sex workers ('camp followers') to break the dependency bond.¹⁵⁴ Furthermore, special effort is needed to reintegrate ex-combatants with disabilities into productive employment.¹⁵⁵

Many post-conflict countries have to cope with a large number of IDPs and returning refugees.¹⁵⁶ One of the key problems is that displaced people often cannot or do not want to return to their homes or resume previous activities. Humanitarian assistance to IDPs and refugees like basic food, health services, temporary housing, potable water, sanitation, logistics, as well as psychological, medical and social help are essential. However, relief aid may create distortions. Thus a medium to long-term socio-economic policy is essential from the beginning to reintegrate IDPs and returning refugees.¹⁵⁷

Short-term integration programmes may be conducive to a smooth transition, but should not become substitutes for longer-term recovery. In general, the gap between the three stages should be kept at the minimum which is feasible, since the full reintegration of ex-combatants depends on how quickly the economy can expand so as to provide a demand for labour. Thus, planning the DDR should ensure that the programme is integrated into wider socio-economic policy frameworks (e.g. UNDAF and PRSPs). One problem is that many emergency programmes wither over time because of a lack of commitment by donors concerning financing and technical assistance or due to a lack of interest from national authorities. A related aspect which is emphasized in the literature is to ensure that DDR programmes respond to the long-term needs of their beneficiaries by taking into account local needs and market conditions. Often post-training support does not create a relevant labour supply.¹⁵⁸

Policy implications encompass a sound assessment of the political, economic as well as human capacity context. A DDR process should be built on national leadership and responsibility as well as community participation and be very clear about the primary target group. Planning for reintegration should start as early as possible and ensure the integration of DDR into a wider socio-economic policy framework. Nevertheless, DDR programmes cannot guarantee the successful reintegration of ex-combatants (or other groups) into society.¹⁵⁹

153 UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*, UN/IDDRS. Chapter 4.30 *Social and Economic Reintegration*, Interagency working group (IAWG) DDR, 2006
<http://www.unndr.org/iddrs/framework.php>

154 UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*

155 UN/IDDRS. Chapter 4.30 *Social and Economic Reintegration*, Interagency working group (IAWG) DDR, 2006.
<http://www.unndr.org/iddrs/framework.php>

156 Currently, there is little empirical evidence available on the effect of violent conflict on the experience of displaced households and individuals. See Justino P. (2009). *The impact of armed civil conflict on household welfare and policy responses*. MICROCON Research Working Paper 12

157 Del Castillo G. (2008). *Rebuilding war-torn states*

158 UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*

159 Van de Goor L., Ball N. (2006). *Disarmament, Demobilization and Reintegration. Mapping Issues, Dilemmas and Guiding Principles*. Netherlands Institute for International Relations 'Clingendael', Conflict Research Unit

4.2 Infrastructure

The rehabilitation of infrastructure is critical for the recovery of war-torn countries. Early investments in public services and infrastructure are important to jump-start economic growth, to provide jobs, to alleviate hardships for those displaced by the conflict and thus to support the peace-building process. From the economic growth perspective, infrastructure could facilitate economic activity by lowering unit costs, enlarging markets and facilitating trade as well as improving health and education with possible multiplier effects.¹⁶⁰ In addition, the infrastructure sector could be a key activity for the creation of jobs for unskilled young males, thus reducing the risk of conflict.¹⁶¹ On the other side, infrastructure failures in the post-conflict period can be (...) *weapons in the hands of combatants and opponents of peace, and can be used to derail and undermine the legitimacy and effectiveness of the reconstruction process.*¹⁶²

Civil infrastructure is usually damaged, looted or neglected during violent conflict and skilled managers as well as support employees may emigrate due to insecurity.¹⁶³ In most post-conflict countries it can take years or even decades before infrastructure is rehabilitated. Funding constraints and decreased commitment to long-term ODA, insecurity, corruption and landmines can severely hinder infrastructure projects. In the short term, investment in telecommunications (mobile phone usage) by the private sector has been common in post-conflict countries (e.g. a 1,533 percent increase in five years in DRC). While small-scale investments in electricity also move quickly into the market, major infrastructure investments in energy, transportation and water tend to materialize only in the long term. Constraints of early large investments are insecurity, the policy environment, cumbersome procurement procedures, and donors which tend to focus more on quick-impact investments than longer-term projects.¹⁶⁴ In addition, post-conflict countries suffer from disproportionately low levels of private investment in infrastructure in the first five years, with only small-scale service providers likely to emerge early after the conflict.¹⁶⁵

To be successful, infrastructure activity in a post-conflict situation needs to address several political and social issues. First, political will and commitment by key local leaders is seen to be one of the most important determinants of successful infrastructure reforms. Second, necessary tariff increases in basic services need to be gradual and accompanied by public relations campaigns, since tariff increases are usually affected by public opposition. Firms will need financial subsidies for several transitional years to offer lower tariffs. Third, corruption is a common feature in poorly governed utilities. Fourth, the government's control over the utility during the transitional period is a major political issue. Finally, utility staffing and salaries can be a very important political and social issue during early recovery due to the large number of employees and low salaries.¹⁶⁶

Key trade-offs in providing infrastructure assistance in an early post-conflict situation are mentioned in the literature. First, a critical choice for many infrastructure programmes in post-conflict countries is whether one should try to rebuild local public utility companies or use private-sector participation to re-establish services.

160 See UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*

161 Collier P. (2007). *Post-Conflict Recovery: How should Policies be Distinctive?*

162 Ananad P.B. (2009). *Infrastructure Development in Post-Conflict Reconstruction* **In:** Addison T., Brueck T. (eds). *Making peace work. The challenges of economic reconstruction*

163 Brown R. H. (2005). *Reconstruction Infrastructure* **in:** Junne G., Verkoren W. (eds.) *Post-conflict development. Meeting New Challenges*

164 Standardized international data sets provide virtually no information on patterns of post-conflict infrastructure reconstruction. Thus the analysis of economic infrastructure is based on secondary studies rather than an analysis of primary data in a recent research project. See USAID (2009). *Patterns of Post-Conflict Economic Recover*, Schwatz J., Halkyard P. (2006). *Post-conflict Infrastructure*. Public policy for the private sector brief: note number 305

165 Schwatz J., Halkyard P. (2006). *Post-conflict Infrastructure*. Public policy for the private sector brief: note number 305

166 USAID (2009). *A Guide to Economic Growth in Post-Conflict Countries*

Second, the pressure to make rapid large-scale investments in infrastructure should be matched with a strengthening of institutions. Without appropriate institutional underpinning, new fixed assets risk being poorly maintained. Third, short-term effectiveness often requires the prices of services to be left at unrealistically low levels. The key trade-off here is that the prices of public services need to be increased to recover more of the costs, while restoring services immediately after conflict is critical.¹⁶⁷ Fourth, infrastructure projects for immediate implementation must benefit all parties to avoid a relapse into conflict. Infrastructure projects which benefit only one part or one geographic region may contribute to a return to conflict. However, the speed of recovery and short-term solutions may hinder participatory processes.¹⁶⁸

The literature review results in the following **policy recommendations for infrastructure rehabilitation** in post-conflict situations.

First, **infrastructure activities should promote complementarities between small-scale and large-scale projects and restore basic services that support economic activity at the productive enterprise level to foster employment.** A related requirement is that **infrastructure projects should listen to local stakeholders, minimize the use of foreign contractors and use mainly local labour as well as materials to promote employment.**¹⁶⁹ In this context, it is **crucial to understand social and ethnic dynamics** to ensure that they are not exacerbated by infrastructure programmes.

Second, **private investors may play an important role in the provision of some infrastructure services** (e.g. telecommunications). However, it is **unrealistic to expect the private sector to undertake major infrastructure investments.**¹⁷⁰ Since the government is usually not in a position to finance infrastructure from its own resources, the **role of governments in early recovery is seen to provide security and to set up a basic institutional, legal, administrative, regulatory framework for infrastructure.**¹⁷¹ On the other hand, donors could provide governments with the necessary support to finance infrastructure.

Third, it is of the utmost importance to **strike a balance between physical reconstruction and the rebuilding of public institutions that manage and maintain infrastructure** (building institutional operating capacity for governance and management).

Depending on the institutional capacity at the local level, there might be a window of opportunity early on in the post-conflict period (the first 18 months) to undertake critical systemic reforms in the water, energy, transport and telecommunications sub-sectors.¹⁷²

167 USAID (2009). *A Guide to Economic Growth in Post-Conflict Countries*

168 Ananad P.B. (2009). *Infrastructure Development in Post-Conflict Reconstruction* In: Addison T., Brueck T. (eds). *Making peace work. The challenges of economic reconstruction*

169 UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*

170 UNDP (2008). *Post-conflict economic recovery: enabling local ingenuity*

171 Del Castillo G. (2008). *Rebuilding war-torn states*

172 USAID (2009). *A Guide to Economic Growth in Post-Conflict Countries*

4.3 Employment

The relevance of employment and job creation in the early post-conflict situation can be discussed from **two perspectives**.

The main argument for **short-term employment** is that the rapid recovery of employment and livelihoods are expected to reduce the immediate probability of conflict and may save on security as a form of crime prevention as well as possibly leading to a peace dividend for communities most affected by conflict. Young ex-combatants and commanders can be serious security risks after the end of conflict.¹⁷³ In addition, ex-combatants consistently say that their top priority is finding a job. Employment will occupy ex-combatants during the day and is cheaper than other forms of monitoring. It is hoped that regular work in civilian jobs creates a sense of normalcy and routine, which could contribute to social stability.¹⁷⁴ Furthermore, civilian employment may help ex-combatants to recover more 'normal' social and emotional networks.

Taking these arguments into account, it is important that short-term employment programmes address the risk of conflict directly by targeting unemployed (male) youths as well as ex-combatants (see the reintegration of ex-combatants).¹⁷⁵ Thus security would be set as priority in the early recovery phase as opposed to equity or fairness.¹⁷⁶ Implementing short-term employment programmes, however, is not an easy task, since ex-combatants face multiple obstacles to employment like illiteracy, psychological problems, a lack of work experience as well as weak social, family and community ties.¹⁷⁷ A related issue is that donor-financed public employment programmes can provide only transitional solutions until private employment has gained some momentum.

On a more general level, **'broad-based' employment** is relevant to sustain peace more indirectly via improved well-being and inclusive growth. In this sense, employment is an overarching objective of all parts of post-conflict economic policy and equity, as well as fairness, is a primary objective. Supporting economic policies like, for example, macro-economic stabilization or the establishment of property rights are paramount for employment creation and are discussed under these headings in the report. Here we focus more on the first aspect and will establish a link to the more general economic policy in the end.

In general, violent conflicts destroy jobs and unemployment as well as under-employment may prolong the conflict and heighten the risk of a relapse. Statistics on employment and labour in post-conflict countries, however, are sparse and often of poor quality, particularly concerning the informal sector.¹⁷⁸ Common features of post-conflict countries with respect to the labour market are large informal sectors (possibly a criminal and illegal economy), the abundance of youth unemployment as well as an erosion of real wages and non-wage livelihoods. While employment in most post-conflict countries is primarily in the informal agricultural sector,

173 In immediate post-conflict environments, ex-combatants are more likely to turn to crime and illegal activities such as the drug trade due to a lack of legal enforcement. See McLeod D., Dávalos M. E. (2008). *Post-conflict employment creation for stabilization and poverty reduction*

174 McLeod D., Dávalos M. E. (2008). *Post-conflict employment creation for stabilization and poverty reduction*

175 If large-scale benefits only target ex-combatants with less being directed towards the broader rural population, young people may have an incentive to become new combatants. See World Bank Report (2007). *Development and the next generation*

176 In a recent article, the relation between security and equity-fairness with respect to employment programmes is depicted as being inversely u-shaped. In the beginning, the emphasis of security increases together with equity by reaching a threshold. After this point the emphasis on equity and poverty reduction is constantly increasing, while the security priority diminishes in the long term. See McLeod D., Dávalos M.E. (2008). *Post-conflict employment creation for stabilization and poverty reduction*

177 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

178 USAID (2009). *Patterns of post-conflict economic recovery*

the urban sector may pose very different challenges with regard to employment.¹⁷⁹ Furthermore, a massive amount of people (internally displaced persons - IDPs) usually move to safe places like camps and cities during conflicts. In becoming accustomed to their new situations, IDPs may have limited incentives to return to their pre-conflict occupations.¹⁸⁰

The key trade-off of employment policy in the early recovery situation is the relation between the short-term and long-term aspect. While long-term labour focuses in general on the reduction of legal and administrative barriers to labour mobility, the primary purpose of post-conflict transitional employment is to provide short-term work opportunities. Short-term labour policies are not meant to develop new enterprises or provide long-term jobs, or to lead to future employment, but should serve as transitional employment opportunities to establish and maintain social tranquillity as well as to deliver vocational or remedial training and skills development. One of the key reasons for this is the pronounced lag in the recovery of private sector employment due to the very high risks for private investors. In this sense, donor-financed transitional public employment-generation programmes are seen to be time-limited and should be substituted when the recovery proceeds to improve labour market efficiency and to promote sustainable private-sector employment.¹⁸¹

With respect to **general policy recommendations**, the literature proposes to **focus employment activities on rehabilitating competencies, activities and sectors that were present before the war, rather than embarking on riskier new initiatives.** Additional requirements are to **conduct public employment programmes in a participatory manner.**¹⁸² **Community-based approaches to employment generation are expected to reduce conflicts between ex-combatants and civilian workers.** While the importance of **integrating civilian workers and ex-combatants is acknowledged, the possible failure of this process is also emphasized.** One proposition is to **promote complementary dispute resolution programmes or to integrate local leaders to mitigate conflicts.** Furthermore, **co-opting or engaging with warlords may be politically highly controversial, but may occasionally be necessary for economic and employment continuity in the short term.**

To address the key challenges and trade-offs of employment policy in a post-conflict situation, the UN has recently proposed a **three-track strategy**.¹⁸³

The objective of **track A** is to consolidate peace by stabilizing income generation and emergency employment. Employment programmes should target specific conflict-affected individuals like ex-combatants, high risk youths, IDPs and others with urgent needs like food, health or services. Programmes should include emergency temporary jobs as well as basic livelihood and promote reinsertion as well as reintegration.¹⁸⁴

Track B should focus on the promotion of local economic recovery for employment and reintegration. Programmes should invest in local recovery and in restoring the natural resource base. This entails investments in socio-economic infrastructure and local institutions. While capacity and institution-building becomes a central objective, the scope of participating economic actors should widen at this stage.

The goal of **track C** is to promote sustainable long-term development by supporting economic policies and institutional capacity building at the national level and by creating a framework for social dialogue. To address the key causes of conflict, employment programmes should take poverty reduction and social inclusion

179 UN (2008). *Employment creation, income generation and reintegration in post-conflict settings*

180 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

181 USAID (2009). *Patterns of post-conflict economic recovery*

182 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

183 UN (2008). *Employment creation, income generation and reintegration in post-conflict settings*

184 Emergency temporary jobs cover cash for work projects, emergency public employment services, and short-cycle skills training. See UN (2008). *Employment creation, income generation and reintegration in post-conflict settings*

especially into consideration. These activities should also start in the early recovery situation, but are expected to intensify with increased recovery.

The UN approach correctly distinguishes between the short-term and long-term aspects of employment activities and is a first step in an integrated and coherent approach to employment policy in an early recovery situation. A key challenge of all employment activities in a post-conflict setting, however, will be the question of how the different actors can deal with the issue of a criminal and illegal economy as well as clientelism.

4.4 Agriculture

In many post-conflict countries, **agriculture is the most promising sector to improve immediate sources of livelihood for the majority of the population.** Restoring agriculture may have the potential to offer food security as well as broad-based income and is expected to move the population more rapidly from relief dependency to independent livelihood security.¹⁸⁵ In addition, agricultural growth may generate revenues for governments with the potential to stabilize institutions and conflict-reducing expenditures. On the other hand, increased conflict risks due to agriculture mean serious inequality in access to productive assets like natural capital, infrastructure and services, disputes about land rights as well as commodity prices and environmental shocks.¹⁸⁶

Violent conflicts have significant effects on agricultural productivity and food security by destroying crops as well as farmers' assets. Furthermore, farmers in conflict-affected countries usually retreat into subsistence production.¹⁸⁷ Thus post-conflict countries and donors have to consider social and politico-economic dimensions very carefully when developing agricultural policies as part of recovery strategies.

The focus on food security in the short term by delivering relief supplies has to be balanced with longer-term productivity-promoting activities. Extending donated food for too long or in the wrong season may have negative effects on local production by depressing crop prices and disturbing local markets. Reducing the imports of donor supply and applying 'market-integrated relief' approaches have been proposed as a solution.¹⁸⁸ In addition, the country's major agricultural areas should first be targeted to put arable land back into production. Early activities may encompass repairing water delivery systems as well as rebuilding roads. While training and education is important in the longer run, capacity for agricultural policy must first be restored to rebuild monitoring and the enforcement capacity of key regulatory authorities.

Longer-term activities have to deal with the use of inefficient production technologies and a return to traditional subsistence farming that took place during violent conflicts. Improved access to credit for rural communities will be critical in the long run for sustainable agriculture. Moreover, the expansion of trade opportunities and the building up of trade capacity are crucial. Improved efficiency of agricultural production is critical to enhance trade possibilities. Key supporting activities encompass the demining of arable land and the change of the agricultural subsidy policy of advanced countries.¹⁸⁹

185 Reduced poverty by agricultural development may increase 'opportunity costs' for joining a rebellion. See UNU-IAS Report (2004) *Agriculture for Peace. Promoting Agricultural Development in support of peace*

186 Addison T. (2005). *Agricultural development in peace*. UNU-WIDER Research Paper No. 2005/07

187 UNU-IAS Report (2004) *Agriculture for Peace. Promoting Agricultural Development in support of peace*

188 In the 'market-integrated relief' approach, donors buy a relief supply from local and regional vendors. See USAID (2009). *A Guide to Economic Growth in Post-Conflict Countries*

189 However, the elimination of rich-country subsidies to domestic food producers will raise the food prices, which may be a serious concern for food-importing countries. See Addison T. (2005). *Agricultural development in peace*. UNU-WIDER Research Paper No. 2005/07

4.5 Education

In general, conflict has a negative effect on education via two channels. First, a violent conflict reduces the stock of human capital – the stock of education, skills, and aptitudes embodied in labour – due to injury, death or migration. Combatants may also lose some of their professional skills during their years spent fighting. Second, conflict impacts negatively on the conditions of human capital formation and replacement through, for example, the destruction of the educational infrastructure, the loss of education personnel and reduced educational expenditures.¹⁹⁰ Further reasons for decreased education during a conflict period may be heightened insecurity and decreased household income.¹⁹¹

As a consequence, enrolment rates in general often fall during conflict. While enrolment at the secondary and tertiary level usually comes to a halt during war, primary school indicators display significant resilience during a conflict period in some countries. Female enrolment ratios, however, tend to be low during conflict. In this context, a World Bank report recognizes that [...] *a striking feature of education during conflict is that it almost never comes to a complete standstill for an extended period.*¹⁹²

In general, primary school enrolment increases fairly quickly after the end of a conflict to the level of poor non-conflict countries. While also starting to recover in the early post-conflict situation, secondary and tertiary education levels remain below average for a developing country for a longer period of time.¹⁹³ Thus, the predominance of teenage and young adults among ex-combatants may entail the loss of a generation's human capital.

Relating education policy interventions to conflict sensitivity is critical. Education policy might directly address the causes of conflict if vocational and training programmes are allocated to the reintegration of ex-combatants and other 'spoilers' of the peace process. Horizontal inequalities might also be addressed by education policies on the administrative and content level. Education might also be used as an important tool to promote tolerance and non-violent approaches to conflict as well as reconciliation and social cohesion.¹⁹⁴

Education-enhancing activities in an early post-conflict environment can support the peace-building process also more indirectly. Improved education especially of girls may decrease poverty and inequality by increased productivity at the (poor) household level. Higher education can have the potential to support long-term economic and social development. However, the relation between education and conflict is not necessarily negatively correlated. Improved education may also lead to better capabilities and resources for conflict.

A balanced combination of short and long-term objectives is crucial to profit from education for peace-building. Quick impact programmes like reconstruction and the return of children to schools can be an effective

190 UNDP (2008). *Post-Conflict Economic Recovery. Enabling Local Ingenuity*. Further reasons for decreased education during conflict may be heightened insecurity and decreased household income. USAID (2009). *Patterns of Post-conflict Economic Recovery*

191 Addison T. (2008). *Chronic poverty and violent conflict: 'fragile states' and the social compact*. Policy Brief No. 7, Chronic Poverty Research Centre

192 Worldbank (2005). *Reshaping the future. Education and Postconflict Reconstruction*.

193 Chen S., Loayza N.V., Reynal-Querol M. (2005). *The aftermath of civil war*. Post-conflict Transitions Working Paper No. 4, Worldbank WPS 4190

194 Four root causes of conflict with respect to education are mentioned: recognition of identity, cultural development and community survival; distribution of resources; access to political power; ideological orientation. See Degu W.A. (2005). *Reforming education in:* Junne G., Verkoren W. (ed. 2005). *Post-conflict Development. Meeting New Challenges*

way to demonstrate a peace dividend to the local population. Medium to longer-term education policies and reforms, however, are usually not at the centre of early post-conflict recovery activities.¹⁹⁵

4.6 Health

Armed conflicts impact heavily on health by increased mortality and morbidity. The report *Armed Conflict and Public Health* (2002) distinguishes between direct and indirect impacts of armed conflict on health.¹⁹⁶

First, war leads directly to killed, injured or disabled individuals. In addition, the sexual and physical abuse of civilians (rape, slavery and the use of children as combatants) results in serious physical and emotional as well as mental illnesses with often long-term disabilities (Post Traumatic Stress Disorder).

Second, conflicts impact indirectly on health via intermediate factors. Armed conflicts damage agricultural structures which destroy livestock and land (anti-personnel mines in cultivated areas). In turn, agricultural productivity is seriously decreased leading to food shortage and malnutrition. Another problem is internally displaced people without access to shelter or food. The biggest cause of mortality among these war victims is a high rate of infectious diseases often in epidemic forms. Damage to healthcare infrastructure by deliberately targeting healthcare structures is an additional indirect factor. Finally, decreased healthcare expenditure due to a switch in public spending towards military expenditures may lead to the loss of skilled workers and no or reduced healthcare services. All these factors weaken the health status by heightening the risk of starvation and infections.

In general, knowledge on the health consequences of violent conflict is scarce due to limitations on the movement of researchers, the destruction of registration systems or a possible misrepresentation of information.¹⁹⁷ Child and maternal mortality rates seem to increase during protracted or severe conflicts, even if measurement is difficult due to limited data availability.¹⁹⁸ While decreasing after the end of conflict, the level remains high for a longer period.¹⁹⁹ A major point of concern, however, is that the direct effect of violence on health is less important than communicable diseases in a post-conflict situation.²⁰⁰

Health-related activities are critical to support the peace-building process indirectly. The increased threat and incidence of infectious diseases is a major risk to security in the early recovery period. In a holistic approach the report *Armed Conflict and Public Health* (2002) states that victims among politicians, the military and the labour force are destabilizing risk factors. In addition, the loss of foreign investment and higher macroeconomic and microeconomic expenditures are seen to increase the risk of violent conflicts. In this context, poverty increased by health problems might add an additional risk factor.²⁰¹

195 Preventing reasons encompass, among others: a) the impact of education reforms may need years to emerge, b) the political leader may not focus on education, c) the required resources are too high and the donor community does not want to commit to longer-term engagement. See Degu W.A. (2005). *Reforming education in*: Junne G., Verkoren W. (ed. 2005). *Post-conflict Development. Meeting New Challenges*

196 Guha-Sapir D., van Panhuis W.G. (2002). *Armed Conflict and Public Health. A report on knowledge and knowledge gaps. WHO/CRED*

197 Justino P. (2009). *The impact of Armed Civil Conflict on Household Welfare and Policy Responses*. MICROCON Research Working Paper 12

198 USAID (2009). *Patterns of Post-conflict Economic Recovery*

199 Worldbank (2005). *Reshaping the future. Education and Post-conflict Reconstruction*.

200 **Communicable diseases** are illnesses caused by micro-organisms and transmitted from an infected person or animal to another person or animal. See Collier P., Hoeffler A. (2007). *Civil War In*: Sander T., Hartley K. (2007). *Handbook of Defense Economics, Volume 2, chapter 23*

201 Justino P. (2009). *The impact of armed civil conflict on household welfare and policy responses*. MICROCON Research Working Paper 12

Referring to the complex relation between health and conflict, the **post-conflict rehabilitation of the health system faces severe challenges on the social, economic and political level. A recent framework proposes three parts of a post-conflict rehabilitation of the health sector: a) an initial response to immediate health needs, b) the restoration or establishment of a package of essential health services, c) the rehabilitation of the health system itself.**²⁰² Usually, donors and local governments act urgently in the immediate aftermath of conflict to restore health services. However, donors should look beyond emergency healthcare needs to the development of long-term healthcare plans for entire countries.²⁰³ The major point here is that the three phases are not isolated from each other and should be taken into account simultaneously as (...) *the manner in which the immediate humanitarian needs are met can have profound implications for fostering sustainability.*²⁰⁴ Thus the implementation of basic health services should be complemented by components of a comprehensive approach to health system rehabilitation.

4.7 Fiscal policy and public finance

Fiscal policy and reform lies at the heart of economic policy in the early post-conflict recovery.²⁰⁵ The capacity to mobilize, allocate, and spend domestic resources is crucial for the success of peace-building efforts.²⁰⁶

Several aspects of the relevance of fiscal institution-building and policy for peace-building have been put forward in the literature. First, fiscal mismanagement may heighten the risk of conflict by decreasing living standards. Thus, re-establishing fiscal discipline and transparent institutions can help to sustain peace by laying the groundwork for economic recovery.²⁰⁷ Second, discrimination in public spending and in the allocation of the tax burden can compound the relative deprivation of ethnic and regional groups.²⁰⁸ Put positively, governments must be able to ensure sustainable funding for social programmes and redistribution activities to ease tensions and redress grievances. Third, sound fiscal capacity is considered to be central to state legitimacy and to establish a social contract between the state and society.²⁰⁹

The main challenge of fiscal policy in an early post-conflict situation is to find the right balance between the consolidation of political stability (avoiding a relapse into conflict) and not jeopardizing macro-economic stability (price stability). On the one hand, government expenditures should address the basic needs for a tangible peace dividend. On the other hand, government revenues are typically low in an early post-conflict environment and deficit financing risks macro-economic consequences such as high inflation. In addition, a massive aid influx may crowd out fiscal revenues and weaken domestic institutions. Improvements in public

202 Waters H., Garrett B. Brunham G. (2008). *Rehabilitating Health Systems in Post-Conflict Situations* In: Addison T., Brück T. (eds. 2009). *Making peace work. The challenges of Social and Economic Reconstruction*

203 USAID (2009). *Patterns of Post-conflict Economic Recovery*

204 Waters H., Garrett B. Brunham G. (2008). *Rehabilitating Health Systems in Post-Conflict Situations* In: Addison T., Brück T. (eds. 2009). *Making peace work. The challenges of Social and Economic Reconstruction*

205 Addison T., Brueck T. (2009). *The way forward.* In: Addison T., Brueck T. (eds. 2009). *Making peace work. The challenges of social and economic reconstruction.*

206 Boyce J. K., O'Donnell M. (2007). *Peace and the Public Purse: An introduction*

207 See Gupta S., Tareq S., Clements B., Segura-Ubiergo A., Bhattacharya R. (2009). *Post-Conflict Countries: Strategy for Rebuilding Fiscal Institutions* in: Addison T., Brück T. (eds. 2009). *Making peace work. The Challenges of Social and Economic Reconstruction*

208 Addison T., Murshed S.M. (2001). *The fiscal dimensions of conflict and reconstruction*

209 *In some cases, there is a need to curtail extralegal taxation by warlords and armed groups, to enhance security.* See Boyce J. K., O'Donnell M. (2007). *Peace and the Public Purse: An introduction*

expenditure management and tax administration can help establish fiscal discipline which may lead to strengthened institutions and a reduced risk of future conflict.²¹⁰

Concerning fiscal policy, standard international data sources provide little coverage of basic fiscal indicators for the first five years after the end of conflicts.²¹¹ Scarce empirical evidence demonstrates that the ratio of revenue (excluding grants) to GDP is lower in conflict conditions and improves only slowly after the end of conflict due to a weak tax base (informal economy).²¹² Thus a fiscal peace dividend seems to be only small after the end of a conflict.²¹³ Furthermore, donor support can often represent more than half of the operating budget in an early post-conflict situation.²¹⁴

Revenue mobilization during wartime is difficult due to, for example, political instability, a limited economic base, a lack of government sovereignty over territory and a weak tax base in the private sector. On the other hand, military and security expenditures increase wartime expenditures significantly and usually lead to high budget deficits at the end of the conflict. The fiscal stance during post-conflict recovery varies widely between the countries according to the level of revenue mobilization and expenditures leading to the denial of a 'one size fits all' pattern of fiscal stabilization.²¹⁵ In general, there is greater reliance on indirect taxes (e.g. trade taxes) and a reduced scope for deficit financing due to high indebtedness and the risk of inflation.²¹⁶

In general, fiscal institution-building and policy encompasses revenue mobilization and budget allocation as well as expenditure management.²¹⁷

The objectives of revenue mobilization are, among other things, to [...] *pay civil servants' wages, underwrite public services, finance capital expenditures (public investment) and reduce aid dependence*. Restoring fiscal capacity encompasses the re-establishment of a functioning tax administration. The reform of the tax system should be guided by principles of pragmatism, gradualism ('second-best' policies) and conflict sensitivity.²¹⁸ Often a shortage of experienced and well-trained revenue officials is a critical constraint.²¹⁹

210 Gupta S., Tareq S., Clements B., Segura-Ubierno A., Bhattacharya R. (2009). *Post-Conflict Countries: Strategy for Rebuilding Fiscal Institutions* in: Addison T., Brück T. (eds. 2009). *Making peace work. The Challenges of Social and Economic Reconstruction*

211 USAID (2009). *Pattern of post-conflict economic recovery*

212 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

213 The term 'peace dividend' originally means the diversion of the military expenditures to more productive spending such as on education or public investment. See Addison T., Murshed S.M. (2001). *The fiscal dimensions of conflict and reconstruction*. WIDER Discussion Paper No. 2001/49

214 Carnahan M., Lockhart C. (2008). *Peacebuilding and Public Finance* in: Call C.T. (ed. 2008). *Building States to Build Peace*

215 USAID (2009). *Pattern of post-conflict economic recovery*

216 In a comparison between strong and weak growth recovery, the UNDP report found that strong growing countries had larger public sector deficits. See UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

217 Policy objectives of fiscal institution-building comprise a) avoiding ad hoc decision-making, b) promoting fiscal transparency, c) ensuring a minimum level of revenue collection, and d) aligning spending patterns with established priorities. See Gupta S., Tareq S., Clements B., Segura-Ubierno A., Bhattacharya R. (2009). *Post-Conflict Countries: Strategy for Rebuilding Fiscal Institutions* in: Addison T., Brück T. (eds. 2009). *Making peace work. The Challenges of Social and Economic Reconstruction*

218 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

219 Some countries have followed a four-stage sequence to cope with the shortage of revenue officials. Often there is an initial focus on customs collection at a limited number of border points. The next step is usually the service taxation of services consumed by the expatriate community. Third, a large taxpayer unit is created focusing on the 100 to 500 largest taxpayers. Finally, a personal income tax is introduced. See Carnahan M., Lockhart C. (2008). *Peacebuilding and Public Finance* in: Call C.T. (ed. 2008). *Building States to Build Peace*

The size of the tax base hinges critically on the dynamism of the formal economic sector, which is usually narrow in an early post-conflict situation. Another possibility is the application of ‘distortionary’ taxes like, for example, trade taxes. Finally, distributional issues with respect to ‘vertical’ and ‘horizontal’ inequalities are also relevant on the revenue side. Taxes may be ‘progressive’ (or ‘regressive’) if they fall more heavily on the rich (poor). In addition, taxes may integrate important inequalities between subgroups defined in terms of ethnicity, race, religion, or language divisions.

The other side of fiscal policy is **budget allocation and expenditure management**. Public expenditure may be a major driving force for recovery by meeting basic needs for a tangible peace dividend, by being central to state legitimacy and the social contract between the state and society, and by addressing horizontal inequality. Allocating scarce public resources among competing objectives is a deeply political process and may be especially flawed by political processes in an early post-conflict situation. However, a desire to sustain political alliance and lubricate political networks may be justified by the benefits of political cohesion bought about by patronage.²²⁰ Expenditure management covers the issue of implementing the decision taken in framing the budget.

Based on an analysis of the advice of the IMF’s Fiscal Affairs Department to selected post-conflict countries, **Gupta et al. (2009) discuss strategies for re-establishing fiscal management and rebuilding fiscal institutions in post-conflict countries.**

The authors propose three phases of fiscal institution-building: first, put in place a proper legal and regulatory framework for conducting fiscal policy; second, establish and strengthen the central fiscal authority and the ministry of finance as well as the coordination of external assistance; finally, put in place appropriate policies and administrative arrangements for revenue mobilization and expenditure management. The relative importance and sequence of each of these steps, however, depends on the type of conflict.²²¹ Thus strategy, pace and the sequencing of fiscal institution-building should be tailored to specific circumstances. In addition, fiscal policy should ensure that short-term activities are consistent with the long-term objectives of establishing a modern fiscal management system. Finally, rebuilding fiscal institutions in a situation of weak institutions critically depends on the willingness and ability of the local government to commit itself.²²²

220 Boyce J. K., O’Donnell M. (2007). *Peace and the Public Purse: An introduction*

221 In conflicts that led to the emergence of new countries, or took place immediately after the creation of a new country, the countries followed the three-step framework. In conflicts in pre-existing countries with widespread institutional damage and social disruption, the countries followed the three-step framework, but the sequencing was not always the same. In conflicts in pre-existing countries with a low to moderate degree of institutional and social disruption, the countries focused on the third step. See Gupta S., Tareq S., Clements B., Segura-Ubiergo A., Bhattacharya R. (2009). *Post-Conflict Countries: Strategy for Rebuilding Fiscal Institutions* in: Addison T., Brück T. (eds. 2009). *Making peace work. The Challenges of Social and Economic Reconstruction*

222 The research does not include an assessment of the track records of countries implementing these recommendations. See Gupta S., Tareq S., Clements B., Segura-Ubiergo A., Bhattacharya R. (2009). *Post-Conflict Countries: Strategy for Rebuilding Fiscal Institutions* in: Addison T., Brück T. (eds. 2009). *Making peace work. The Challenges of Social and Economic Reconstruction*

4.8 Monetary policy and exchange rate management

During post-war recovery, improvements in monetary policy are a top priority. [A] *prompt, well executed and publicized monetary policy overhaul is beneficial for reducing uncertainty, facilitating assistance and establishing that the orientation of the post-conflict government is towards the social good.*²²³ Moderate inflation helps to restore confidence in local currency and credit markets, a key pre-condition for growth and investment which might be necessary to sustain peace-building.

In general, war results in high inflation due to an increased fiscal deficit (military spending) financed by money creation, weak domestic production, currency depreciation due to reduced exports and capital flight. Empirical evidence and research on the price effects of armed conflicts is scarce, however.²²⁴ In the first five years after the end of conflict, inflation tends to fall significantly to single digits.²²⁵ In a recent research, the UNDP report on early post-conflict countries compares strong and weak growth recovery countries. Strong growth recovery countries face a much higher inflation rate than weak growth recovery countries, even if inflation fell dramatically after the end of conflict. The report concludes that low inflation is not a necessary and sufficient condition for high growth in early recovery, since recovery may combine temporarily high inflation and high growth.²²⁶

Rebuilding the domestic financial and banking sector is one of the greatest challenges in an early post-conflict situation. The monetary authority will need to establish a basic system for exchange, internal and external payments, and the provision of credit (micro and small-sized enterprises). Institutional priorities are to rebuild or modernize the central bank, payments, the banking system as well as the foreign exchange market and to improve policy formulation and implementation, banking supervision and regulations, public debt management, and accounting as well as information systems. To re-establish a functioning central bank, existing institutional capacities should be appropriately assessed.

Since central bank independence may take some time, interim solutions might be more efficient. Due to the inherently political process of an early post-conflict situation, the requirement of an independent central bank has been questioned in the literature. The main reason for this is that policy makers should have the right to set monetary policy which serves political purposes to sustain peace. In addition, simple institutional frameworks in the early recovery period are recommended, which are context-appropriate and pragmatic. Finally, establishing reliable statistics is vital to sound monetary policy.²²⁷

While monetary stabilization is necessary for economic development and peace-building, it is not a sufficient condition for investment, employment and growth. Furthermore, [...] *the relative importance of various macroeconomic reforms and their sequencing [in a post-conflict situation] is not well understood.*²²⁸

With respect to monetary policy, two related topics are discussed in the literature. **First, monetary policy has to balance price stability with the need for liquidity to achieve broader objectives like employment or the financing of peace-related projects in the short run to sustain political stability.**²²⁹ Thus monetary

223 Starr M. (2004). *Monetary Policy in Post-Conflict Countries: Restoring Credibility*. American University Department of Economics Working Paper Series No. 200409-02

224 Justino P. (2009). *The impact of armed civil conflict on household welfare and policy responses*. MICROCON Research Working Paper 12

225 USAID (2009). *Pattern of post-conflict economic recovery*

226 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

227 Del Castillo, G. (2008). *Rebuilding war-torn states*

228 Collier P., Hoeffler A. (2007). *Civil war*. In: Sandler T., Hartley K. (eds.). *Handbook of Defence Economics, Volume 2*

229 Boyce, O'Donnell (2007) propose a u-shaped relation between political and price stability. A strict monetary policy with low levels of inflation may hinder political stability by high adjustment costs in the short term on

stabilisation should not be too restrictive in the early post-conflict recovery period. This proposition fits well with the conclusion in the UNDP report mentioned above. On the other side, medium to long-term price stability is critical.²³⁰

Second, the **choice of exchange rate regimes** has been discussed in the literature. Sound exchange rate management is crucial for maintaining trade competitiveness. In early post-conflict situations, an appreciation of exchange rate can be possible, for example due to large volumes of foreign exchange caused by aid, a large number of expatriates in the country or a massive inflow of remittances.

Options to stabilize the economy and prevent exchange rate volatility are the use of a foreign currency (dollarization) and currency board arrangements.²³¹ Hard pegs, however, hinder the central bank's control of money supply.²³² Furthermore, the use of a foreign currency might be politically and culturally unfeasible due to political reasons. In addition, a new national currency may act as a symbol of a new political reality. Managed and free floating regimes are also chosen by post-conflict countries, but usually require much more institutional capacity which is often not available.²³³

4.9 Financial sector

The establishment of a functioning financial sector is critical for post-conflict recovery. First, the possibility of safe financial transactions beyond a simple cash and barter economy is a prerequisite for economic development. Second, access to credit is crucial to invest in medium to longer-term projects. Third, a functioning banking sector offers the opportunity to save against external shocks and to off-set consumption expenses.

In general, post-conflict economies have poorly developed capital markets and very thin markets for domestic debt. A basic measure of the deepening financial situation is the ratio of broad money supply (M2) to GDP, which describes the willingness of economic actors to hold monetary assets. While the median value in a selected set of post-conflict countries seems not to be much lower than in a low-income country, the monetization rate does not improve during the first five years of recovery and the indicator varies considerably among countries.²³⁴

In general, an efficient financial sector should cover the functions of storing value other than in goods as well as offering safety for savings and efficient payment mechanisms. In an early recovery situation, core financial services, such as deposit-taking and the facilitation of payments, should first be re-established on the basis of existing systems. Furthermore, the expansion of lending is a longer-term objective which cannot be forced on

unemployment. Beyond a certain level of inflation, however, price instability may weigh heavily on political stability. See Boyce J. K., O'Donnell M. (2007). *Peace and the Public Purse: An introduction*

230 Del Castillo, G. (2008). *Rebuilding war-torn states*

231 Under a currency board arrangement, a country pegs its exchange rate to foreign currency and backs its money supply with foreign exchange.

232 In addition, empirical findings question the positive aspects of dollarization. See Edwards S. (2001). *Dollarization and economic performance. An empirical investigation*. NBER Working Paper 8274

233 See Coats W. (2007). *Currency and Sovereignty: Why monetary policy is critical* in: Boyce J., O'Donnell M. (eds. 2007). *Peace and the public purse. Economic Policies for Post-war State-building*

234 USAID (2009). *Pattern of post-conflict economic recovery*

economies without a history of credit discipline and requires the establishment of capable financial institutions.²³⁵

A first step to rebuild the basic financial services sector should be a diagnosis of the financial sector's performance (external audits or regulatory diagnostics of the main commercial banks and an evaluation of the central bank's regulatory capacity). An important second step is to build the country's financial regulatory capacity and the prudential supervision function of the central bank. The creation of a sound domestic financial system has often involved the privatization of state-owned banks. In this context, prudential supervision and regulation is salient to protect the public interest.²³⁶

Finally, the establishment of the financial sector could be supported by **microfinance institutions**. While forming only a small part of the financial sector, microfinance may facilitate access to financial services for the most vulnerable (displaced persons, returning refugees, war invalids, demobilized soldiers, women, young people) and may be a recovery tool at the household and community level for self-employment activities. However, the impact of microfinance activities on creating new jobs and economic growth in a post-conflict situation is considered to be limited.²³⁷

The weak response to financial sector reforms in post-conflict countries is shown by the low ratio of credit to the private sector as a percentage of GDP, indicating a lack of financial intermediation in the first five years. In addition, the credit side of the financial system is limited by large interest rate spreads due to uncertainty, macroeconomic instability, and a lack of competition in the banking system.

The problem of reviving the financial sector is related to the monetary policy executed by the central bank. In an early post-conflict situation, the central bank is usually weak and has to adhere to a stabilization programme to establish credibility and decrease inflation via high interest rates. One possibility to stabilize the financial system is to increase foreign exchange reserves, which increase liquidity and may help to protect the economy from external shocks. While varying considerably, the median of the ratio of gross international reserves to imports has doubled in the first 5 years in a selection of post-conflict countries.²³⁸

4.10 External Finances

Massive **capital flight** in the post-conflict situation poses a huge macroeconomic problem for economic recovery.²³⁹ Capital flight brings the balance of payments under pressure, leads to reduced private investment and is a huge loss of capital for the country on the way to recovery. On the other hand, the large proportion of private assets held abroad possesses a significant potential for accelerating growth.²⁴⁰ The problem of capital flight can be approached either by controlling external capital flows or by encouraging repatriation. Among others, an exchange rate overvaluation is a factor for capital flight and may be addressed by monetary policy.

235 In addition, it seems to be more appropriate for donors to provide financial assistance to the conflict-affected population and to small businesses through grants (either in cash or in kind) rather than loans. See USAID (2009). *A Guide to Economic Growth in Post-Conflict Countries*

236 Addison T., Brueck T. (2009). A way forward in: Addison T., Brueck T. (2009). *Making peace work. The challenges of social and economic reconstruction*

237 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

238 USAID (2009). *Pattern of post-conflict economic recovery*

239 Capital flight has been a major problem in Africa (around 36 % of private wealth). See Collier (2007). *Post-conflict recovery: How should policies be distinctive?*

240 Collier (2007). *Post-conflict recovery: How should policies be distinctive?*

Post-conflict countries are typically associated with a substantial increase in the **stock of debt** and possible **debt overhang**.²⁴¹ As a result, post-conflict countries often have large debt arrears. Since countries cannot obtain new concessional development financing from multilateral creditors (the IMF, the World Bank or regional development banks such as e.g. the African Development Bank) as long as they are in arrears, post-war debt management is an important issue. Thus solving arrears with the IFIs and restructuring debt is an important first step for early post-conflict recovery.²⁴²

The most important possibility to release the burden of accumulated debt is a **debt relief agreement** in its two main forms: rescheduling and forgiveness.²⁴³ The main institutional arrangements for coordinated debt relief are the London Club, the Paris Club and the Heavily Indebted Poor Countries (HIPC) initiative. In general, debt relief does not provide new external financing to the post-conflict country. However, debt relief may provide some 'fiscal space' for the government by shifting subsequent aid inflows from repayments to recovery activities. Furthermore, lower indebtedness may decrease macroeconomic uncertainty and reduce the need for foreign currency to repay the debt.²⁴⁴ Whether debt is 'additional' in the sense that it does not lead to lower levels of other aid is still an open empirical question.

The rationale for more debt relief in post-conflict economies is based on three arguments. First, post-war countries face exceptional burdens and needs. An early post-conflict situation is often characterized by low output and low exports, high levels of debt, worsened debt sustainability indicators as well as less scope for development financing. In addition, post-conflict countries typically have high financing needs for (re)construction. Second, highly indebted countries may face a debt overhang effect reducing growth via decreased domestic or foreign investment. Finally, the odious nature of debts may be a compelling reason for debt relief. An odious debt can be defined as debt incurred by a dictator, not in the interest of the country but instead to strengthen the despotic regime.²⁴⁵

A recent review of debt management in three post-conflict countries (Uganda, Mozambique, and Democratic Republic of Congo) recommends faster and deeper debt relief including issues of peace sustainability in the sustainability criteria. In addition, the lack of an international regulatory framework for the settling of conflict-related and odious debts is criticized.²⁴⁶

Remittance inflows are an important source of recovery financing in post-conflict countries. While serious problems with the quality of data and evidence of large unrecorded flows hinder precise estimations of their real size in early post-conflict countries, diasporas are seen to be an important source of cash transfer.²⁴⁷ Large remittance flows by emigrant workers may play a decisive role in helping the war-affected population to rebuild

241 A debt overhang situation refers to a situation when a country's debt is sufficiently large that expected debt service costs deter foreign and domestic investment. See Sachs J. (1989). *The debt overhang of developing countries* In: Calvo R., Fidlay R., Kouri P., de Macedo J.B. (eds.): *Debt stabilization and development: Essays in Honour of Carlos Diaz-Alejandro*

242 Del Castillo, G. (2008). *Rebuilding war-torn states*

243 **Debt rescheduling** involves an agreement on new payment terms that shifts debt service into the future, lowering payments in the short term. This does not decrease the value of the debt stock. **Debt forgiveness** involves writing off some or all of the debt. See Alvarez-Plata P., Brueck T. (2007). *Post-war Debts: Time for a New Approach* In: Boyce J., O'Donnell M. (eds.) *Peace and the public purse. Economic policies for post-war state-building*

244 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*. On the effect of high indebtedness on pro-poor growth, see Maier R. (2005). *External debt and pro-poor growth*

245 Alvarez-Plata P., Brueck T. (2007). *Post-war Debts: Time for a New Approach* In: Boyce J., O'Donnell M. (eds.) *Peace and the public purse. Economic policies for post-war state-building*

246 Alvarez-Plata P., Brueck T. (2007). *Post-war Debts: Time for a New Approach* In: Boyce J., O'Donnell M. (eds.) *Peace and the public purse. Economic policies for post-war statebuilding*

247 In 2004 the global remittances to all developing countries were more than double of the size of ODA flows. See USAID (2009). *Patterns of post-conflict economic recovery*; IFAD (2008). *Sending Money Home: Worldwide Remittance Flows to Developing Countries*. IFAD Remittance Forum Rom

their livelihood, increase their consumption level as well as moving out of the poverty trap. In addition, remittances may stimulate local credit as well as other financial markets and may help to establish appropriate institutions to encourage the channelling of remittances to social services. On the other hand, diaspora financing may also hinder the peace process if remittances are channelled towards supporting specific political agendas. Furthermore, the international community has devoted an enormous amount of attention to limiting international income transfers in order to curtail the funding of armed groups or terrorist groups by diasporas.²⁴⁸

To enhance the size and importance of remittances for post-conflict recovery, a recent IFAD report proposes two main strands. **First, transaction costs for remittances should be decreased.** While transaction costs in general have fallen in developing countries, they still remain high and vary considerably between countries. In addition, the lack of competition in rural areas and the restriction of remittance payments to banks lead to higher costs and informal networks. Lower transaction costs are expected to maximize the household receipts. Reducing transaction costs, however, depends on a wide area of factors like informality, local monopolies or regulations.²⁴⁹ In this context, the inclusion of remittance intermediation in the portfolio of microfinance institutions is proposed.²⁵⁰

Second, the IFAD report suggests the setting up of account-to-account transfer systems rather than cash-to-cash to leverage the development impact of remittances. The rationale is that remittance recipients cannot save, borrow or build up credit histories due to a lack of access to banks. Access to an account-to-account transfer system is expected to formalize remittance flows, reducing costs, and increasing the scope for local investment.²⁵¹ A weak telecommunications infrastructure in an early post-conflict situation can hinder the establishment of appropriate transfer systems.²⁵²

Official development assistance may be critical of post-conflict development, but covers only a share of the total resource flows to post-conflict countries among remittances, natural resource wealth or peacekeeping expenditures.²⁵³ A recent study has emphasized the positive role of increased foreign aid in reducing the risk of conflict.²⁵⁴

Data on post-conflict foreign aid flows reveal six important features. First, the volume of aid is large and growing. Second, while varying between countries, aid as a percentage of Gross National Income (GNI) tends to peak in terms of commitments during the first few years and then diminishes. Furthermore, aid in the first two years tends to concentrate on humanitarian and emergency relief. Third, post-conflict aid flows mainly to ‘donor darlings’, thereby neglecting ‘aid orphans’.²⁵⁵ Fourth, the amount of aid flows is only weakly related to corruption. Fifth, the composition of aid flows has changed considerably to humanitarian assistance and social sectors. Finally, aid tends to foster post-conflict economic growth. Early recovery seems to be mainly dependent on ODA.²⁵⁶

248 Justino P. (2009). *The impact of armed civil conflict on household welfare and policy responses* in: MICROCON Research Working Paper 12

249 IFAD (2008). *Sending Money Home: Worldwide Remittance Flows to Developing Countries*. IFAD Remittance Forum Rom

250 UNDP (2008). *Post-conflict recovery: Enabling Local Ingenuity*

251 IFAD (2008). *Sending Money Home: Worldwide Remittance Flows to Developing Countries*. IFAD Remittance Forum Rom

252 UNDP (2008). *Post-conflict recovery: Enabling Local Ingenuity*

253 OECD (2007). *Ensuring fragile states are not left behind*. Factsheet

254 De Ree J., Nillesen E. (2006). *Aiding violence or peace? The impact of foreign aid on the risk of civil conflict in Sub-Saharan Africa* Working paper 06-09, Utrecht School of Economics

255 OECD (2007). *Ensuring fragile states are not left behind*. Factsheet

256 USAID (2009). *Patterns of Post-conflict Economic Recovery*

Forms of aid cover grant aid which complements domestic revenues and finances, to a large extent, budget deficits in post-conflict countries. With direct budget support aid is transferred to national treasuries and managed via government budgetary procedures. Fungibility problems are a systematic feature of budget support resulting in the possible military spending of aid. In addition, aid may be abused by corrupt elites. On the other side of the coin, project aid may lead to parallel institutional mechanisms and less flexibility for the government.²⁵⁷

Moreover, problems of **aid absorption capacity** due to high aid inflows in the early post-conflict situation period have constantly been mentioned as a key issue of post-conflict aid inflows.²⁵⁸ Hence phasing aid inflows more evenly over time may be one solution.²⁵⁹ In addition, recent research recommends binding the level of aid flows on the improved quality of institutions and policies of post-conflict countries.²⁶⁰ A more balanced view proposes unconditionality in the early post-conflict period to address weak institutions and immediate needs, while accepting a performance-related allocation later on.²⁶¹

Large inflows of aid in the immediate post-conflict situation may also pose macroeconomic challenges.²⁶² Large inflows of aid may cause ‘Dutch disease’ effects with a real exchange rate appreciation. A recent study has concluded, however, that many post-conflict countries have reduced public debt and increased international reserves considerably, thereby avoiding significant appreciations of real exchange rates. Thus the balance between spending aid quickly on high-priority social programmes and saving part of the aid by accumulating foreign reserves and reducing public sector debt is critical.²⁶³

Donors should commit their ODA payments on a sustained basis.²⁶⁴ In addition, the importance of reconstruction aid in contrast to humanitarian assistance has been emphasized.²⁶⁵

4.11 Trade

At least four main reasons have been proposed in the literature for the importance of trade in an early post-conflict situation. First, post-war economies need export earnings to finance much needed imports. Second, government revenues often depend to a considerable degree on import taxes and export levies. Third, foreign currency from exports is necessary to increase political self-determination and independence from

257 See African Development Bank 2008/2009

258 On the macroeconomic policy options to manage large aid inflows, see IMF (2005). *The macroeconomics of managing increased aid inflows: Experience of Low-Income Countries and Policy Implications*

259 African Development Bank 2008/2009

260 Elbadawi I., Kaltani L., Schmidt-Hebbel K. (2007). *Post-Conflict Aid, Real Exchange Rate Adjustment, and Catch-up Growth*. World Bank PS 4187

261 African Development Bank 2008/2009. On a discussion of conditionality, see Goodhand J., Sedra M. (2006). *Bargains for Peace? Aid, conditionalities and reconstruction in Afghanistan*. Clingendael, CRU.

262 On the macroeconomic policy options to manage large aid inflows, see IMF (2005). *The macroeconomics of managing increased aid inflows: Experience of Low-Income Countries and Policy Implications*

263 Elbadawi I., Kaltani L., Schmidt-Hebbel K. (2007). *Post-Conflict Aid, Real Exchange Rate Adjustment, and Catch-up Growth*. World Bank PS 4187

264 Collier P. (2007). *Post-conflict recovery: How should policies be distinctive?*, UNDP (2008). *Post-conflict recovery: Enabling Local Ingenuity*. In addition, recent research reveals that aid seems to have the largest growth impact during six to nine years after the start of peace. See Elbadawi I., Kaltani L., Schmidt-Hebbel K. (2007). *Post-Conflict Aid, Real Exchange Rate Adjustments, and Catch-up Growth*. WPs 4187, Post-conflict Transitions Working Paper No. 3

265 See Demekas D.G., McHugh J., Kosma T. (2002) *The Economics of Post Conflict Aid*, IMF Working Paper 02/198

international donors. Finally, export income may reduce reliance on international criminal networks to provide foreign goods.²⁶⁶

Trade indicators confirm that conflicts reduce the share of imports plus exports as a percentage of GDP (the trade ratio), except in countries where fuel or mineral exports increase. Production for export agriculture decreases during conflict, since farmers retreat into subsistence farming.²⁶⁷ The median trade ratio tends to remain very low during the first five years after the end of conflict, while the trade shares vary widely among countries. Furthermore, export growth in non-resource rich countries is weak after the end of conflict. Export growth varies considerably between countries and is highly erratic due to dependence on primary exports in most post-conflict countries. The trade composition of exports usually persists during the first five years. In the recovery phase, imports usually rise more than exports resulting in a current account deficit in many resource-poor countries.²⁶⁸

In general, foreign direct investment (FDI) in post-conflict countries is low in the first five years after a conflict. The reasons mentioned in the literature are the lack of security, uncertain macroeconomic conditions, a poor infrastructure, complex administrative procedures as well as poor regulatory regimes. For resource-rich countries, however, FDI in extraction is a major source of financing for recovery. Being capital-intensive investments, FDI in extraction of natural resources may not generate many jobs and may increase inequality.²⁶⁹

Resource-rich post-conflict countries face the problem of the 'resource curse'. Natural resource dependence (on oil, diamonds, timber, gold and illegal narcotics) may have the potential to promote civil war by harming a country's economic performance, by making the government more corrupt and less accountable, by giving people in resource-rich regions an incentive to form an independent state, by leading to horizontal inequalities, by being dependent on international price volatility and by financing rebellion.²⁷⁰ Furthermore, 'Dutch disease' effects may severely hamper the diversification of the economy.²⁷¹

The management of FDI inflows and transparency as well as the accountability of resource profits have to improve significantly, since natural resources offer international currency for reconstruction. Thus a state's ability to manage FDI is crucial. In addition, appropriate taxes and the use of revenue are vital to profit from natural resources. Three points of taxation have been proposed in the literature: commodity exports, the profits of firms or the sale of rights to resource extraction. Referring to export taxation as a trade policy measure, the capacity of the customs service is usually limited in enforcing taxation.²⁷²

266 Kamphuis B. (2005). *Economic policy for Building Peace* in: Junne G., Verkoren W. (Eds.). *Post-conflict development. Meeting new challenges*. Other standard arguments for open economies are to enable specialization, encourage economies of scale, spur the transfer of technology, and create competitive domestic markets.

267 Reasons are over-taxation of export agriculture and informal violent predation to valuable crops. See Collier P. (2007). *Post-conflict recovery: How should policies be distinctive?*

268 USAID (2009). *Pattern of post-conflict economic recovery*

269 USAID (2009). *Pattern of post-conflict economic recovery*

270 See e.g. Collier, Hoeffler (2004). *Greed and Grievance in civil war* in: Oxford Economic Papers 56 (4): 563 – 95; Fearon J., Laitin D.D. (2003). *Ethnicity, insurgency, and civil war* in: American Political Science Review 97: 75-90. Increases in world market prices for exported and imported primary commodities may have significant positive effects on the incidence of civil conflict. See Besley T., Persson T. (2009). *The incidence of civil war: Theory and Evidence*. EOPP/2009/5

271 Brown G., Langer A., Stewart F. (2008). *A typology of post-conflict environments: an overview*, CRISE Working Paper 53

272 Another problem in the early post-conflict situation is that transition period ministers have a strong incentive to 'mine' public assets (like contracts for mineral extraction) for private gain, since their time is short. See Collier P. (2007). *Post-conflict recovery: How should policies be distinctive?*

Trade policy in an early post-conflict situation should cover at least five elements:

First, some post-conflict countries face serious border management challenges to control smuggling and the illegal drug trade (e.g. opium in Afghanistan). One trade policy measure in the early recovery situation could be to put procedures and regulations in place for **efficient cross-border trade and simplified revenue collection**. Challenges encompass significant donor and host-government coordination issues.

Second, donors should encourage the **use of streamlined customs declaration and tax collection systems**. These measures may have the potential to limit corruption and leakage as well as reducing both public and private sector administrative demands and costs.

Third, governments should establish **law and oversight mechanisms for raw material revenues to curb the danger of the ‘resource curse’**.

Fourth, while most governments rely on trade taxes in the early post-conflict situation, **a broader revenue base should be aimed at in the longer term**.

Finally, **creating alternative income opportunities for drug producers is critical** in some countries to decrease the dependence on international criminal networks involved in agricultural exports of drugs.

The major challenge in implementing these policy measures is sufficient political support by the host government.

4.12 Private Sector Development (PSD) and entrepreneurship

Private sector development is assumed to play an important role in post-conflict economic development.

The rationale is that the private sector may contribute to inclusive economic growth as well as sustainable development and thus indirectly to peace by an immediate ‘peace dividend’ and sustained recovery. Entrepreneurs may be essential in the reallocation of resources from low productivity towards higher productivity uses, they may fulfil an important ‘cost discovery’ function in making sunk costs in new activities which will provide ex post information on profitability to other entrepreneurs or they may provide goods with a public character. In addition, entrepreneurship may be important for conflict reduction by providing vehicles for individual social mobility. On the other hand, unproductive (rent-seeking) or even destructive (illegal) entrepreneurship in a post-conflict situation severely hinders peace-building. The structure of incentives is considered to be critical for productive entrepreneurship.²⁷³

The term private sector development (PSD) covers a broad area of activities. DfiD defines the private sector as including [...] *any person who sells something aiming to make profit*.²⁷⁴ In addition, PSD interventions may encompass a diversified field of interventions including the strengthening of economic structures, improving the business-enabling environment, systemic support for markets or economic sectors as well as targeted support for household or specific enterprises.²⁷⁵ In a current review, ‘interventionist’ policy approaches advocating direct interventions to promote business are distinguished from ‘investment climate’ approaches focusing on indirect support to the private sector for a business-enabling environment.²⁷⁶

273 Naudé W. (2009). *Entrepreneurship, Post-conflict in*: Addison T., Brück T. (eds.) *Making peace work. The challenges of social and economic reconstruction*

274 DfiD (2008). *Stabilisation through Economic Initiatives: Private Sector Development*

275 DfiD distinguish between initiatives in the area of business-enabling environment, local economy and directly to the private sector. See DfiD (2008). *Stabilisation through Economic Initiatives: Private Sector Development*

276 Sweeney N.M. (2008). *Private sector development in post-conflict countries*. The Donor Committee for Enterprise Development

The growth diagnostics concept is closer to the ‘investment climate’ approach. Here binding constraints are possible causes of low levels of private investment and entrepreneurship (PSD). In this sense, most of the policies mentioned in this report contribute indirectly to private sector development. In the literature, entrepreneurship is seen to be hampered especially by market and government failures.²⁷⁷ The growth diagnostics framework subsumes these failures under the low appropriability problem, meaning the limited ability of investors to reap an adequate share of the otherwise profitable investments. Microeconomic constraints address fundamental institutional weaknesses such as the inadequacy of property rights as well as government corruption. Among other things, market failures cover the area of information and coordination externalities.²⁷⁸

Additional decisive features of the post-conflict private sector are the large amount of informality and the strength of the predatory private sector with ‘conflict entrepreneurs’. To understand the post-conflict context in its political, security, economic and social dimension is therefore critical for the design of an appropriate PSD policy.²⁷⁹ The lack of data on PSD and entrepreneurship is a major constraint. In addition, the literature mentions several threats to the emergence of a productive post-conflict entrepreneurship. First, conflict may cement the stratification between ethnic groups requiring an equitable allocation of budgetary resources to improve social capital sufficiently. Second, rent-seeking opportunities usually abound in post-conflict countries. Third, possibilities for regulatory capture may encourage inappropriate forms of entrepreneurship. Wartime entrepreneurs may obtain substantial resources during conflict, thereby financing post-conflict political parties supporting vested interests.²⁸⁰ Fourth, insecurity and the risky environment may cause businesses, both formal and informal, to shorten their time horizon and hinder longer-term development. The risks may take the form of uncertainty over the ‘rules of the game’ and an inability to enforce rules. Finally, an economy controlled by entrenched interests may have been an important cause of conflict. Powerful old interests may attempt to revive the former economic structure to recreate their privileged positions.²⁸¹

Reformers must be careful in balancing short-term versus long-term policy objectives.²⁸² The literature mentions key trade-offs with respect to short-term, pragmatic solutions. One problem is that effective and immediate solutions may not always be efficient.²⁸³ Second, urgent policy reforms for the private sector may sometimes dictate short-cuts to the policy process in order to encourage immediate activity. Urgency, however, does not mandate illegitimacy. Furthermore, local absorptive capacity is usually limited and hinders immediate

277 In terms of prioritization, addressing the failures of government may lay the groundwork for a transparent and balanced public-private dialogue as well as opening competition. While prioritizing market failures may cause further market distortions by ‘picking winners’ without addressing underlying structures, markets may provide a valuable source of continuity. Thus both constraints are critical to private sector development. See DCED (2008). „*Fighting talk*“: *The DCED expert meeting on private sector development in post-conflict situations*

278 **Information externalities** point to the concept of ‘self-discovery’. The basic idea is that nations must discover their own comparative advantage in a global market, a process which is prone to failure. Information externalities describe the fact that innovators do not reap the full returns generated by their search for profitable activities, since it can be easily imitated by competitors. Too little ‘self-discovery’ by the nation may be the result. **Coordination failure** is another possible market failure. Economic activity usually requires non-tradable inputs such as human skills, infrastructure or other services. In a post-conflict situation, nobody may specialize in a non-tradable input for which there is no demand: the classical coordination problem. It becomes more problematic the more specific the input is to certain activities. See Hausmann R., Klinger B., Wagner R. (2008). *Doing Growth Diagnostics in Practice: A ‘Mindbook’*, CID Working Paper No. 177

279 DfID (2008). *Stabilisation through Economic Initiatives: Private Sector Development*

280 Naudé W. (2009). *Entrepreneurship, Post-conflict in*: Addison T., Brück T. (eds.) *Making peace work. The challenges of social and economic reconstruction*

281 USAID (2009). *A Guide to Economic Growth in Post-Conflict Countries*

282 DCED (2008). „*Fighting talk*“: *The DCED expert meeting on private sector development in post-conflict situations*

283 Related is the problem that relief initiatives often inadvertently distort private sector markets. See Nourse T. et al. (2008) *Market development in crisis-affected environments. Emerging lessons for achieving pro-poor economic reconstruction*

comprehensive reform. Thus short-term reforms should focus on pragmatic solutions like reducing costs and time to register or removing and simplifying licensing requirements to restore the business community's confidence.

With respect to **general policy recommendations**, it is hoped that the business sector will play a central role as long as the broader community is targeted, since the private sector is expected to be more aware of local constraints. Permitting business activities that previously had been constrained, allowing economic opportunities for women, removing excessive licensing as well as reducing complex regulation which may have created great opportunities for rent-seeking, working with customary and traditional dispute-resolution organizations, avoiding early privatization as well as parallel structures are among the common policy recommendations.²⁸⁴

4.13 Economic governance

In this chapter, we will emphasize the importance of focusing on economic governance immediately after the end of conflict.²⁸⁵ While there is a considerable discussion on the scope of economic governance, the term can be defined as follows:

*Economic governance consists of the processes that support economic activity and economic transactions by protecting property rights, enforcing contracts, and taking collective action to provide appropriate physical and organizational infrastructure. These processes are carried out within institutions, formal and informal.*²⁸⁶

On a more indirect level, economic governance is expected to support peace via promoting economic development. The growth diagnostics concept mentions microeconomic risks under the government failure heading. A common categorization covers legal and regulatory reforms like property rights, business and commercial law, competition policy as well as economic legal policy and the rebuilding of capacity in key policy and management bodies like the finance ministry or the central bank as core tasks.²⁸⁷

While most of these activities have already been mentioned in the other chapters, here we concentrate the discussion on the **possible economic drivers of conflict**. Four important economic activities will be covered: **land property rights, corruption, the management of natural resources, and illegal economic activities**.

Land property rights and access to land may be seen as one of the key economic reasons for violent conflict. Competition over land has often been a critical cause of many conflicts. The consequences of violent conflict are losses of land rights through appropriation and displacement. In addition, landmines pose a serious obstacle to the productive use of land in many post-conflict countries.²⁸⁸ A large share of court cases in most post-conflict countries involve land-related disputes which may result in renewed conflict and a decreased land use productivity. Traditional institutions can resolve local disputes, but may not be well equipped to address disputes that cut across groups belonging to different communities.

284 USAID (2007). *A Guide to Economic Growth in Post-Conflict Countries*, DfID (2008). *Stabilisation through Economic Initiatives: Private Sector Development*

285 USAID (2006). *Lessons learned about economic governance in war-torn economies. From the Marshall plan to the reconstruction of Iraq*

286 Dixit A. (2008). *Economic Governance in*: Durlauf S., Blume L. (eds.) *The New Palgrave Dictionary of Economics* (2nd edition). London

287 See e.g. DfID (2008). *The UK Approach to Stabilisation. Stabilisation Unit Guidance Notes.2.Stabilisation: A Matrix of Possible Tasks*, Office of the Coordinator for Reconstruction and Stabilization, US Department of State (2005). *Post-conflict Reconstruction. Essential Tasks*. Other definitions understand sound macroeconomic and microeconomic policy in general as economic governance. See USAID (2006). *Lessons learned about economic governance in war torn economies. From the Marshall plan to the reconstruction of Iraq*

288 UNDP (2008). *Post-conflict Economic Recovery – Enabling Local Ingenuity*

Early post-conflict situations face the challenge of securing property rights for people in conflict affected areas and to restore the property rights of returning IDPs and refugees.²⁸⁹ In general, a lack of secure property rights leads to less incentive to use land productively and to carry out land-related investments. To enhance tenure security, individual titling has been constantly applied. The process of titling, however, may be used for land-grabbing by local elites and bureaucrats. Furthermore, legitimate titles are often destroyed during conflict. A second issue is the documentation of land rights after violent conflicts. Demarcated plots and issue certificates may be required to reduce boundary disputes and facilitate land transactions. Finally, overlapping customary, informal and formal legal frameworks may hinder the efficient use of land and may create social tensions. Cost-effective systems of land administration may facilitate agricultural investment and lower the cost of credit by increasing the use of land as collateral. Designing property rights that support efficient land use, however, is highly complex.²⁹⁰

Corruption is a widespread phenomenon in early post-conflict situations and is seen as a cause and consequence of conflict. Corruption may seriously hinder the transition to peace by further eroding already weak institutions and their capacity to manage or prevent conflict. On the other hand, (the risk of) conflict may undermine accountability and create a permissive environment for corruption.²⁹¹

Confronting corruption early after the end of conflict is critical to restore confidence in the post-war government and to unlock its drag on economic development.²⁹² War economies are by definition prone to corruption and rent-seeking activities. Weak institutional capacity for budgetary management and fiduciary oversight further complicate the issue. From a donor perspective, corruption is a serious threat to the efficient implementation of aid projects involving budgetary support in a post-conflict setting.²⁹³ Propositions for anti-corruption policy encompass, among others, financing vigorous and professional monitoring efforts.²⁹⁴

Natural resources are constantly mentioned as a key economic reason for conflict. Theoretical and empirical literature has proposed several causal channels to explain how an abundance of natural resources might promote economic problems and violent conflict (see the trade chapter on the debate on the ‘resource curse’).

However, the correlation between natural resource dependency and conflict risk may not be direct.²⁹⁵ Failure in governance like systemic corruption or economic mismanagement is emphasized as mediating variables.

289 See as internationally agreed best practices the Pinheiro Principles. The United Nations Principles on Housing and Property Restitution for Refugees and Displaced Persons

290 A related problem is customary tenure which often does not enjoy legal protection. Communal land and common property resources, including grazing and indigenous lands, are special cases. Policy recommendations encompass the formalization of customary laws in participatory ways and more formal types of tenure. See World Development Report (2008). *Agriculture for Development*

291 For further discussion on the close links between corruption, state-building and peace, see O’Donnell M. (2008). *Post-conflict Corruption: A rule of law agenda?* In: Hurwitz A., Huang R. (eds.) *Civil war and rule of law: security, development, human rights*.

292 On the other side, corruption networks may also bridge divisions among elites with possible mitigating effects. Anti-corruption reforms can be destabilizing by serving as an external shock. See O’Donnell M. (2008). *Post-conflict Corruption: A rule of law agenda?* In: Hurwitz A., Huang R. (eds.) *Civil war and rule of law: security, development, human rights*.

293 UNDP (2008). *Post-conflict economic recovery. Enabling local ingenuity*

294 For further discussion on anti-corruption approaches, see O’Donnell M. (2008). *Post-conflict Corruption: A rule of law agenda?* In: Hurwitz A., Huang R. (eds.) *Civil war and rule of law: security, development, human rights*.

295 Four critical arguments are put forward in the literature. First, statistical results do not emerge in different datasets and methodologies. Second, the interpretation that resource abundance is a proxy for rebellion financing has been questioned. Resource abundance may also lead to conflict because of unfair wealth distribution. Third, the narrow measurement of natural resources (excluding diamonds and narcotics) has been criticized. Finally, reversed causality may bias the empirical findings, since the risk of conflict may increase natural resource dependence. See Collier P.,

Mismanagement of resource wealth and the inequitable sharing of natural resource revenues are permissive factors for armed conflict. In addition, ‘unearned’ resource rents may allow elites to establish corrupt patrimonial networks and undermine state institutions or the establishment of a ‘social contract’.²⁹⁶

While there is considerable debate on whether abundant natural resources are directly linked to the onset of armed conflict, access to natural resources may have consequences for the character as well as the duration of conflicts and the efforts to end the war.²⁹⁷ Resource predation may become only relevant in the latter stages of a conflict and prolong the war. Furthermore, many conflicts have become systematically criminalized by combatants engaging in illegal economic activities via international criminal networks. Combatant remuneration in the form of exploitation of lucrative resources might lead to the fragmentation of rebel groups, thereby aggravating a peace agreement. Finally, companies in the extractive industries may become - willingly or unintentionally - intermediaries between local war economies and global commodity as well as financial markets.²⁹⁸

The management of natural resources is critical and may cover a wide area of national, regional and international activities. Curtailing and managing resource flows through regional and international ‘control regimes’ has been proposed as one policy option. Measures encompass targeted commodity sanctions by the UN Security Council, the Kimberley Process Diamond Certification Regime as well as efforts to establish financial transparency by combating corruption and rent seeking by government elites in the extractive industries (Extractive Industry Transparency Initiative – EITI, Publish What You Pay campaign – PWYP).²⁹⁹ Other policy measures include the regulation of private sector activities in conflict zones ranging from voluntary codes of conduct to corporate regulation under national and international law.³⁰⁰

Closely related to resource predation are other **illegal economic activities** conducted in the (post-) war economy. Referring to the distinction between a combat and a shadow economy, economic interactions may either directly sustain the actual combat or fall outside state-regulated frameworks. Rebel groups, some members of the administration or ‘conflict entrepreneurs’ form actors within the combat economy. Preferred means of resource generation include the predatory taxation of licit and illicit economic activities, extortion of local business or the capture of foreign aid. Key actors of the shadow economy are ‘conflict profiteers’ like mafias and organized crime, who benefit from weak institutional arrangements. Economic activities cover the drug trade, the smuggling of high-value commodities, trafficking in persons as well as illicit trade. While the taxonomy is not

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- Hoeffler A. (2004). *Greed and Grievance in Civil War*, Oxford Economic Papers 56: 563 – 595; Fearon J.D., Laitin D. (2003). *Ethnicity, Insurgency, and Civil War*, in: American Political Science Review 97: 75-90, Humphreys M. (2005). *Natural Resources, Conflict and Conflict Resolution: Uncovering the Mechanisms*, Journal of Conflict Resolution 49: 508 – 537, African Development Report 2008/2009
- 296 Malone D. M., Nitzschke H. (2009). *Economic agendas in civil wars: What we know, what we need to know* in: Addison T., Brueck T. (eds.) *Making peace work. The challenges of social and economic reconstruction*
- 297 An additional framework proposed in the literature is the distinction between lootable and unlootable resources and their correlation with separatist as well as non-separatist conflicts. See Ross, M. (2003) *Oil, drugs, and diamonds: The varying roles of natural resources in civil war* in: Ballentine K., Sherman J. (eds.) *The political economy of armed conflict: beyond greed and grievance*
- 298 Malone D. M., Nitzschke H. (2009). *Economic agendas in civil wars: What we know, what we need to know* in: Addison T., Brueck T. (eds.) *Making peace work. The challenges of social and economic reconstruction*
- 299 Ballentine K., Nitzschke H. (2005). *The political economy of civil war and conflict transformation*. <http://www.berghof-handbook.net>
- 300 Malone D. M., Nitzschke H. (2009). *Economic agendas in civil wars: What we know, what we need to know* in: Addison T., Brueck T. (eds.) *Making peace work. The challenges of social and economic reconstruction*

watertight, the concept rightly distinguishes these economic activities from a coping economy of the most vulnerable to target illegal economic activities effectively. Curtailing resource flows through regional and international ‘control regimes’ has been proposed as a policy option. Additional criminal interdiction regimes and regulatory frameworks address drug as well as arms trafficking, money laundering, international organized crime and terrorist financing.

Three **challenges concerning control regimes** have been discussed in the literature. First, control regimes face enforcement problems as, for example, the effectiveness of commodity and financial sanctions as a tool for conflict resolution has been put into question. Most post-conflict countries face a serious need for more targeted capacity building. Second, interdiction may entail unintended negative effects by increasing adverse humanitarian effects. Curtailed resource flows through commodity sanctions, consumer boycotts or drug eradication programmes may reduce the income of the poor. Finally, efforts to combat organized crime and drug trafficking face the risk of being not very successful.³⁰¹

On a more general level, the **importance of regional conflict factors** has been highlighted. War economies may form deeply political, military, economic and social linkages with neighbouring state elites on the level of informal trading networks, ethnic groups, arms traffickers, mercenaries or commercial entities.

4.14 Horizontal inequalities

In the last chapter we focus on the concept of horizontal inequalities. Conventional economic growth models do not analytically integrate questions of horizontal inequality. The idea of inclusive or pro-poor growth, however, points inherently to the relation between vertical inequality, economic growth and peace-building.

Horizontal inequality is a relatively new concept which has been proposed in the literature as a root cause of conflict. **Horizontal inequalities are inequalities in economic, social, or political dimensions or cultural status between culturally defined groups or groups with shared identities.**³⁰² In contrast, vertical inequalities mean the differences between individuals in a society. While vertical inequality has not been found to heighten the risk of conflict, empirical findings seem to support the relevance of horizontal inequalities for conflict. The basic rationale is that culturally defined group identities in themselves are not a sufficient explanation for conflict, but need to match both economic and political causes to trigger conflict.³⁰³ Empirical findings in a recent research project highlight the relevance of higher socio-economic horizontal inequalities for heightened conflict risk. A central result is that conflict is more likely where significant political and economic horizontal inequalities run in the same direction.³⁰⁴

In the literature, four sources of horizontal inequality are highlighted. First, discrimination in taxation and the allocation of public spending may lead to horizontal inequalities. A second source may be the great inequality of

301 Ballentine K., Nitzschke H. (2005). *The political economy of civil war and conflict transformation*. <http://www.berghof-handbook.net>

302 Group identities may arise partly from individuals’ own perception or may be determined by the perceptions of those outside the group. Concepts concerning the formation of identities encompass the *primordialistic* view, which emphasize the quasi-natural state of ethnicity. *Instrumentalists* focus on ethnicity as being developed instrumentally by groups or leaders to achieve economic or political goals. Finally, ‘*social constructivists*’ emphasize the ‘making’ and ‘remaking’ of ethnic boundaries that make such instrumentalism possible. See Stewart F. (2008). *Horizontal Inequalities and Conflict: An Introduction and some Hypotheses* in: Stewart F. (ed.) *Horizontal inequalities and conflict. Understanding group violence in multiethnic societies*

303 Stewart F. (ed. 2008). *Horizontal Inequalities. Understanding group violence in multiethnic societies*

304 Stewart F., Brown G.K., Langer A. (2008). *Major findings and conclusions on the relationship between horizontal inequalities and conflict* in: Stewart F. (ed.) *Horizontal inequalities and conflict. Understanding group violence in multiethnic societies*

land assets between opposing groups. Finally, economic mismanagement and recession as well as grievances related to natural resource rents are mentioned as sources of horizontal inequalities.³⁰⁵

In general, **policies to cover horizontal inequalities encompass a broad area.** Direct horizontal inequality-reducing activities cover, among other things, quotas for employment or education as well as special investment or credit programmes for particular groups. Policies to reduce horizontal inequalities indirectly may include anti-discrimination legislation, general anti-poverty programmes, progressive as well as regional and district taxation, regional development programmes or sectoral support programmes. Public investment and government employment may be additional areas to address horizontal inequalities indirectly.³⁰⁶

Taking into account that horizontal inequalities may persist for a very long time, the relevance for early post-conflict recovery may be debatable. On the other hand, the transition phase may be a window of opportunity to implement policies which reduce horizontal inequalities in the longer term.

305 Murshed S. M., Zulfan Tadjoeiddin M. (2008). *Reappraising the Greed and Grievance Explanations for Violent Internal Conflict*, MICROCON Research Working Paper 2

306 Stewart F., Brown G.K., Langer A. (2008). *Policies towards horizontal inequalities* in: Stewart F. (ed.) *Horizontal inequalities and conflict. Understanding group violence in multiethnic societies*

Summary of chapter 4: Priority areas and policy recommendations

Domains	Policy recommendations and implications
<p>Reintegration of ex-combatants and IDPs/refugees</p>	<p>Thorough assessment of the political, economic as well as human capacity context is necessary.</p> <p>DDR process should be built on national leadership and responsibility as well as community participation and be very clear about the primary target group.</p> <p>Planning for reintegration should start as early as possible and ensure the integration of DDR into a wider socio-economic policy framework.</p> <p>DDR programmes cannot guarantee the successful reintegration of ex-combatants (or other groups) into society.</p>
<p>Infrastructure</p>	<p>Infrastructure activities should promote complementarities between small-scale and large-scale projects and restore basic services that support economic activity at the productive enterprise level to foster employment.</p> <p>Infrastructure projects should listen to local stakeholders, minimize the use of foreign contractors and use mainly local labour as well as materials to promote employment.</p> <p>It is crucial to understand social and ethnic dynamics to ensure that they are not exacerbated by infrastructure programmes.</p> <p>Private investors play an important role in the provision of some infrastructure services (e.g. telecommunications), but it is unrealistic to expect the private sector to undertake major infrastructure investments.</p> <p>The public sector is usually not in a position to finance infrastructure from its own resources, the role of governments in early recovery is seen to provide security and to set up a basic institutional, legal, administrative, regulatory framework for infrastructure.</p> <p>It is important to strike a balance between physical reconstruction and the rebuilding of public institutions that manage and maintain infrastructure.</p> <p>Depending on the institutional capacity at the local level, there might be a window of opportunity early on in the post-conflict period (first 18 months) to undertake critical systemic reforms in the water, energy, transport and telecommunication sub-sectors.</p>
<p>Employment</p>	<p>Focus initial employment activities on rehabilitating competencies, activities and sectors that were present before war.</p> <p>Conduct public employment programmes in a participatory manner.</p> <p>Community-based approaches to employment generation are expected to reduce conflicts between ex-combatants and civilian workers.</p> <p>Promote complementary dispute-resolution programmes or integrate local leaders to mitigate conflicts.</p> <p>Co-opting or engaging with warlords may be politically highly controversial,</p>

	<p>but may occasionally be necessary for economic and employment continuity in the short term.</p>
Agriculture	<p>Balance the focus on food security in the short term with longer-term productivity-promoting activities.</p> <p>Reduce imports of donor supply and apply ‘market-integrated relief’ approaches.</p> <p>Target the country’s major agricultural areas first to put arable land back into production.</p> <p>Early activities may encompass repairing water delivery systems as well as rebuilding roads.</p> <p>Capacity for agricultural policy must be restored early to rebuild the monitoring and enforcement capacity of key regulatory authorities.</p> <p>Longer-term activities have to deal with the use of inefficient production technologies and the return to traditional subsistence farming that took place during violent conflicts.</p> <p>Training and education, improved access to credit for rural communities, the expansion of trade opportunities, the building up of trade capacity, and the improved efficiency of agricultural production are critical in the long run for sustainable agriculture.</p> <p>Key supporting activities encompass the demining of arable land and the change of the agricultural subsidy policy of advanced countries.</p>
Education	<p>Education policy can address causes of conflict by vocational and training programmes allocated to the reintegration of ex-combatants and other ‘spoilers’ of the peace process.</p> <p>Horizontal inequalities can be addressed by education policies at the administrative and content level.</p> <p>Education can be used as an important tool to promote tolerance and non-violent approaches to conflict as well as reconciliation and social cohesion.</p> <p>A balanced combination of short and long-term objectives is crucial to profit from education for peace-building</p> <p>Quick impact programmes like reconstruction and the return of children to schools can be an effective way to demonstrate a peace dividend to the local population.</p> <p>Medium to longer-term education policies and reforms have to be integrated as early as possible in post-conflict recovery activities</p>

<p>Health</p>	<p>Donors should look beyond emergency healthcare needs to the development of long-term healthcare plans for entire countries.</p> <p>A recent framework proposes three parts of a post-conflict rehabilitation of the health sector:</p> <ul style="list-style-type: none"> <i>a) initial response to immediate health needs</i> <i>b) restoration or establishment of a package of essential health services</i> <i>c) rehabilitation of the health system itself.</i> <p>The three phases are not isolated from each other and should be taken into account simultaneously.</p>
<p>Fiscal Policy and Public Finance</p>	<p>Fiscal institution building and policy encompasses revenue mobilization and budget allocation as well as expenditure management.</p> <p>The objectives of revenue mobilization are to pay civil servants' wages, underwrite public services, finance capital expenditures (public investment) and reduce aid dependence.</p> <p>Re-establishment of a functioning tax administration and the reform of the tax system should be guided by principles of pragmatism, gradualism ('second-best' policies) and conflict sensitivity. A shortage of experienced and well-trained revenue officials is a critical constraint.</p> <p>Distributional issues with respect to 'vertical' and 'horizontal' inequalities are relevant: taxes can be 'progressive' and integrate important inequalities between subgroups defined in terms of ethnicity, race, religion, or language divisions.</p> <p>Public expenditure can be a major driving force for recovery by meeting basic needs for a tangible peace dividend, by being central to state legitimacy and the social contract between the state and society, and by addressing horizontal inequality.</p> <p>Allocating scarce public resources among competing objectives is a deeply political process.</p> <p>Three phases of fiscal institution-building in post-conflict countries:</p> <p>First, put in place a proper legal and regulatory framework for conducting fiscal policy</p> <p>Second, establish and strengthen the central fiscal authority and the ministry of finance as well as the coordination of external assistance;</p> <p>Third, put in place appropriate policies and administrative arrangements for revenue mobilization and expenditure management.</p> <p>The relative importance and sequence of each of these steps depends on the type of conflict. In addition, rebuilding fiscal institutions in a situation of weak institutions is critically dependent on the willingness and ability of the</p>

	local government to commit itself.
Monetary Policy and exchange rate regimes	<p>Rebuilding the domestic financial and banking sector is one of the greatest challenges in an early post-conflict situation.</p> <p>The monetary authority will need to establish a basic system for exchange, internal and external payments, and the provision of credit (micro- and small-sized enterprises).</p> <p>Institutional priorities are to rebuild or modernize the central bank, payments, the banking system as well as the foreign exchange market and to improve policy formulation and implementation, banking supervision and regulations, public debt management, and accounting as well as information systems.</p> <p>To re-establish a functioning central bank, existing institutional capacities should be appropriately assessed.</p> <p>Since central bank independence may take some time, interim solutions might be more efficient. Policy makers should have the right to set monetary policy which serves political purposes to sustain peace. Simple institutional frameworks in the early recovery period are recommended, which are context-appropriate and pragmatic.</p> <p>Monetary policy has to balance price stability with the need for liquidity to achieve broader objectives like employment or the financing of peace-related projects in the short run to sustain political stability.</p> <p>Sound exchange rate management is crucial for maintaining trade competitiveness.</p> <p>Dollarization or currency board arrangements prevent nominal exchange rate volatility, but hinder the central bank's control of money supply. Managed and free floating regimes require more institutional capacity.</p>
Financial Sector	<p>To rebuild the basic financial services sector, the financial sector's performance should be assessed (external audits or regulatory diagnostics of the main commercial banks and an evaluation of central bank's regulatory capacity).</p> <p>An important second step is to build the country's financial regulatory capacity and the prudential supervision function of the central bank.</p> <p>The creation of a sound domestic financial system can involve the privatization of state-owned banks. Prudential supervision and regulation is salient to protect the public interest.</p> <p>The establishment of the financial sector could be supported by microfinance institutions. Microfinance facilitates access to financial services for the most vulnerable (displaced persons, returning refugees, war invalids, demobilized soldiers, women, young people) and is a recovery tool at the household and community level for self-employment activities.</p>
External Finances	Massive capital flight in the post-conflict situation poses a huge macroeconomic problem for economic recovery. Capital flight can be

	<p>approached either by controlling external capital flows or by encouraging repatriation.</p> <p>Post-conflict countries are typically associated with a substantial increase in the stock of debt and possible debt overhang.</p> <p>The most important possibility to release the burden of accumulated debt is a debt relief agreement in its two main forms: rescheduling and forgiveness.</p> <p>Debt relief does not provide new external financing to the post-conflict country, but can provide some ‘fiscal space’ for the government by shifting subsequent aid inflows from repayments to recovery activities.</p> <p>To enhance the size and importance of remittances for post-conflict recovery, an IFAD report proposes two main strands:</p> <ul style="list-style-type: none"> - transaction costs for remittances should be decreased. - the setting up of account-to-account transfer systems rather than cash- to-cash to leverage the development impact of remittances. <p>Official development assistance covers only a share of the total resource flows to post-conflict countries among remittances, natural resource wealth or peacekeeping expenditures.</p> <p>Problems of aid absorption capacity due to high aid inflows in the early post-conflict situation period are a key issue. Phasing aid inflows more evenly over time is one solution.</p> <p>Large inflows of aid in the immediate post-conflict situation pose macroeconomic challenges. Large inflows of aid may cause ‘Dutch disease’ effects with a real exchange rate appreciation.</p> <p>Donors should commit their ODA payments on a sustained basis.</p>
<p>Trade</p>	<p>Some post-conflict countries face serious border management challenges to control smuggling and the illegal drug trade (e.g. opium in Afghanistan).</p> <p>One trade policy measure in the early recovery situation is to put procedures and regulations in place for efficient cross-border trade and simplified revenue collection.</p> <p>Donors should encourage the use of streamlined customs declaration and tax collection systems. These measures may have the potential to limit corruption and leakage as well as reducing both public and private sector administrative demands and costs.</p> <p>Governments should establish law and oversight mechanisms for raw material revenues to curb the danger of the ‘resource curse’.</p> <p>While most governments rely on trade taxes in the early post-conflict situation, a broader revenue base should be aimed at in the longer term.</p> <p>Creating alternative income opportunities for drug producers is critical to</p>

	<p>decrease the dependence on international criminal networks involved in agricultural exports of drugs.</p> <p>The major challenge in implementing these policy measures is sufficient political support by the host government.</p>
<p>Private Sector Development</p>	<p>To understand the post-conflict context in its political, security, economic and social dimension is critical for the design of an appropriate PSD policy, since decisive features of the post-conflict private sector are the large amount of informality and the strength of the predatory private sector with ‘conflict entrepreneurs’.</p> <p>Key trade-offs are that effective and immediate solutions may not always be efficient, urgent policy reforms for the private sector may sometimes dictate short-cuts to the policy process in order to encourage immediate activity, and local absorptive capacity is usually limited and hinders immediate comprehensive reform.</p> <p>Thus short-term reforms should focus on pragmatic solutions like reducing costs and time to register or removing and simplifying licensing requirements to restore the business community’s confidence.</p> <p>General policy recommendations are to permit business activities that previously had been constrained, to allow economic opportunities for women, to remove excessive licensing as well as reducing complex regulation which may have created great opportunities for rent seeking, to work with customary and traditional dispute-resolution organizations, and avoiding early privatization as well as parallel structures.</p>
<p>Economic governance</p>	<p>Land property rights and access to land</p> <p>To enhance tenure security, individual titling is constantly applied. The process of titling, however, can also be used for land-grabbing by local elites and bureaucrats.</p> <p>A further issue is the documentation of land rights after violent conflicts. The demarcation of plots and the issuing of certificates are required to reduce boundary disputes and facilitate land transactions.</p> <p>Overlapping customary, informal and formal legal frameworks often hinder the efficient use of land and create social tensions. Cost-effective systems of land administration may facilitate agricultural investment and lower the cost of credit by increasing the use of land as collateral.</p> <p>Corruption</p> <p>Propositions for anti-corruption policy encompass, among others, financing vigorous and professional monitoring efforts.</p> <p>Management of natural resources</p> <p>Curtailing and managing resource flows through regional and international ‘control regimes’ has been proposed as one policy option.</p> <p>Measures encompass targeted commodity sanctions by the UN Security</p>

	<p>Council, the Kimberley Process Diamond Certification Regime as well as efforts to establish financial transparency by combating corruption and rent seeking by government elites in the extractive industries (Extractive Industry Transparency Initiative – EITI, Publish What You Pay campaign – PWYP).</p> <p>Other policy measures include the regulation of private sector activities in conflict zones ranging from voluntary codes of conduct to corporate regulation under national and international law.</p> <p>Illegal economic activities</p> <p>Curtailing resource flows through regional and international ‘control regimes’ has been proposed as a policy option. Additional criminal interdiction regimes and regulatory frameworks address drug as well as arms trafficking, money laundering, international organized crime and terrorist financing.</p> <p>Three challenges facing control regimes:</p> <p>Control regimes face enforcement problems as, for example, the effectiveness of commodity and financial sanctions as a tool for conflict resolution has been put into question. Most post-conflict countries face a serious need for more targeted capacity building.</p> <p>Interdiction may entail unintended negative effects by increasing adverse humanitarian effects. Curtailed resource flows through commodity sanctions, consumer boycotts or drug eradication programmes may reduce the income of the poor.</p> <p>Efforts to combat organized crime and drug trafficking face the risk of being not very successful.</p> <p>Regional conflict factors are important. War economies form deeply political, military, economic and social linkages with neighbouring state elites at the level of informal trading networks, ethnic groups, arms traffickers, mercenaries or commercial entities.</p>
Horizontal Inequalities	<p>Direct horizontal inequality reducing-activities cover, among other things, quotas for employment or education as well as special investment or credit programmes for particular groups.</p> <p>Policies to reduce horizontal inequalities indirectly include anti-discrimination legislation, general anti-poverty programmes, progressive as well as regional and district taxation, regional development programmes or sectoral support programmes.</p> <p>Public investment and government employment are additional areas to address horizontal inequalities indirectly.</p>

5. Conclusion

To complement the policy recommendations in each priority sector, we will conclude the report with general recommendations for the Dutch policy on early post-conflict reconstruction.

The report starts from the assumption that **decisions on socio-economic policy for post-conflict situations should be based on country-specific analysis delineating domestic, regional, and global impact factors.**

To derive possible priority areas and bridge the short and medium-term objective, the report embedded the short-term stabilisation aspect in a medium-term development perspective. In this context, the report analyzed a broad set of socio-economic areas in post-conflict countries by comparatively describing their role in post-conflict countries, indicating their possible direct or indirect effects on conflict, and elaborating on the trade-offs between short-term and long-term objectives.

To decide on priority areas in a fluid and non-linear post-conflict situation, we opt for a **multidisciplinary country-specific analysis integrating growth as well as political economy analysis, conflict assessment and poverty as well as inequality analysis.** In addition, a **broader and medium-term economic perspective should be integrated at an early stage.**

An integrated country-specific analysis can further enhance the policy of the Netherlands with respect to two aspects:

Socio-economic activities are implemented in a **coherent strategy.** In this context, coherent means the integration of economic activities at the Netherlands' government level under a common strategy. Coherence can be improved with a country-specific approach based on a multidisciplinary analysis.

Referring to the statement that the Dutch policy in fragile states should be [...] *multilateral where possible, bilateral where necessary*, **an integrated country-specific analysis can further clarify the distinction between bilateral and multilateral activities, the definition of the Dutch comparative advantage with respect to other donors, and the way the Netherlands wants to influence multilateral institutions.**³⁰⁷

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On the research level, further analysis should **clarify the scope and role that economic policy should play in post-conflict countries**. This report revealed a shortage of knowledge on the linkages between security, development and governance. In addition, further research is needed on **how inclusive growth can be achieved in fragile states**. Finally, the **impact of the current financial and economic crisis needs more attention**.

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