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# **Post-conflict Recovery: Approaches, Policies and Partnerships**

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## 1. Introduction: The challenge of post conflict recovery

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

The post-conflict economy is not simply a 'normal' economy that happens to be in great distress. The massive destruction of assets, the disruption of social networks and the distortion of signals and incentives that generally constitute the legacy of violent conflict indicate a long transition to normalcy. This transition or *recovery* process consists of a series of overlapping processes—like colours in a rainbow—requiring that the sequencing of economic and social policies be particularly creative. This chapter discusses the approaches, policies and partnerships that are required to consolidate peace and restart economic development in the aftermath of violent conflict. It highlights what actions national authorities should take and how the international community can be most helpful.<sup>2</sup>

The next section outlines the parameters of recovery. Section 3 describes briefly the impact of violent conflict on people, livelihoods and on the economy. Section 4 outlines the approach that is increasingly emerging as the most promising for sustained recovery. Section 5 examines the issue of appropriate economic policy for revitalizing the economy. Section 6 looks at the issue of partnerships for post-conflict recovery, focusing on the potential for private sector involvement and the role of external assistance. Section 7 provides some concluding remarks.

## 2. Defining post-conflict recovery

Terms such as 'recovery', 'reconstruction' and 'rebuilding' tend to suggest a return to the *status quo* before the conflict. Typically however, developmental pathologies such as extreme inequality, poverty, corruption, exclusion, institutional decay and poor economic management would have contributed to armed conflicts in the first instance and would have been further exacerbated during conflict. In the aftermath of war, recovery could mean a

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<sup>2</sup> The chapter draws extensively on the recent report of the United Nations Development Programme (UNDP) report on Post-conflict Economic Recovery (UNDP 2008).

return to pre-conflict economic growth and employment rates. Indeed, one perspective views recovery as a return to the highest level of gross domestic product (GDP) per capita attained during the five years preceding the conflict (Flores and Noorudin, 2007). In many cases however, growth rates in the period immediately before the outbreak of violence have been very low, or even negative. Returning to the pre-war GDP growth trajectory is clearly not good enough in such situations. A narrow emphasis on growth alone may also understate the sheer complexity of managing the economic consequences of conflict. For instance, if growth favours only a small segment of the population, it risks perpetuating or exacerbating grievances that may have contributed to conflict in the first place (Addison, 2003).

A broader perspective that sees recovery as achieving broad socio-economic well-being is also possible. This would include restoring citizen and societal security, ensuring food security, restoring shelter, public health and educational systems, as well as reconstructing the physical infrastructure, generating employment, opening markets, re-establishing prudential systems for banking and financial institutions (Mendelson-Forman, 2002). There is a risk, however, that such a maximalist definition could conflate recovery from conflict with attaining economic development more broadly.

The international peacebuilding and development community works with several notions of recovery. For instance, the World Bank advances the notion of post-conflict reconstruction, which it defines as “the rebuilding of the socio-economic framework of society” and “the reconstruction of the enabling conditions for a functioning peacetime society, explicitly including governance and rule of law as essential components” (World Bank, 1998). The United Nations Development Programme (UNDP) sees recovery as the process of return to a ‘normal’ development trajectory, where a country has “reacquired the capability to make and implement economic policy as part of a largely self-sustaining process of economic governance” (UNDP 2005).

While eschewing a maximalist approach, successful economic recovery cannot simply be a return to pre-war income levels and growth rates. Rather, it must involve growth rates that permit a structural break with the past. This means growth must be sustained at significantly higher than historical rates, and should be accompanied by significant employment creation and by action to reduce severe horizontal inequalities.<sup>3</sup> In essence, post-conflict recovery does not mean simply restoring pre-war economic or institutional arrangements. It involves a socio-economic transformation and it requires a combination of far-reaching economic, institutional, legal, and policy reforms that allow war-torn countries to re-establish the foundations for self-sustaining development. Recovery means creating a new political economy dispensation. It means building back *differently and better*.

A critical dimension of post-conflict recovery is that despite their many similarities, post-conflict economies do vary in many ways from country to country. The actual situation depends on the length, scope and intensity of the armed conflict, the terms of the peace and the level of development prior to conflict. Some countries emerge from war with a reserve of economic assets, human capital, functioning institutions and a formal economy that still works. Others are not so lucky and face large hurdles both to sustainable peace and to economic recovery.

Recent civil conflicts have increasingly been concentrated in poor countries with large rural populations. Combat often provides an attractive occupational option for young rural males, reducing the supply of labour as much as demand. This makes employment and livelihood creation particularly crucial at the end of conflict to rehabilitate ex-combatants as well as those displaced from jobs and communities by war. Moreover, as many of these economies

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<sup>3</sup> Frances Stewart (2002) defines *horizontal inequalities* to be “severe inequalities between culturally defined groups” which she differentiates from *vertical inequalities*, which are inequalities between individuals or households groups.

were not performing well before lapsing into conflict, creating large numbers of decent jobs is particularly urgent (McLeod and Dávalos, 2008).

### 3. The impact of violent conflict on people, assets and institutions

Conflict diverts resources from production to destruction. The economic legacy of conflict includes the widespread destruction and degradation of human and physical capital; the collapse of growth and flight of capital; loss of employment and livelihoods; and weakened governance institutions and social networks. The distorted system of asset acquisition, resource use and incentives that conflict leaves behind represents a disabling environment for legitimate private-sector investment. Capital flight and investor confidence can be particularly difficult to reverse when hostilities end. Markets will have been severely compromised at all levels from village produce exchanges to national commodity and financial exchanges. As legitimate economic activity is devastated, illicit activities economies often flourish that may fuel the conflict further.

#### The human costs

Armed conflicts generally result in the reduction of a country's stock of human capital. While the most direct human capital costs are deaths as a result of war-related violence, battle deaths usually constitute a small proportion of the total number of casualties. Non-battle deaths, due to war-exacerbated disease and malnutrition, are substantially larger than battle deaths. As shown in Table 1, for a sample of conflicts in Africa, actual battle deaths have ranged from under 2 percent to at most 30 percent of total war deaths.

**Table 1 Battle deaths versus total deaths in selected African countries**

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

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

The large numbers of indirect deaths are due to famine and disease. War reduces the availability of food and it changes entitlements as food prices rise and people lose their jobs or livelihoods. Famine, resulting from this combination, often accounts for a large number of deaths. Mortality rates also tend to rise due to the spread of killer diseases such as HIV/AIDS, malaria, tuberculosis and other infectious diseases in situations where health-care systems have collapsed. World Health Organization (WHO) data on 23 major diseases indicate that armed conflicts substantially increase the incidence of contagious diseases (Ghobarah et. al. 2003). Although the interplay between violence and infectious diseases is complex and variable, evidence suggests that the greater the wartime violence and the poorer and more vulnerable the country, the greater the number of people who get seriously ill or die from these diseases (Human Security Centre, 2005).

The educational system is often another major casualty of civil conflict. Conflict reduces the stock of people with high levels of education and productive skills due to death, injury death or migration. It may also induce some deskilling among combatants, as they lose some of their previously acquired professional skills during years spent fighting. The destruction of a country's educational infrastructure can be very widespread and often has serious long-term effects on a post-conflict country's economic recovery and development. For instance, during Liberia's 15-year civil war, at least 50 percent of all schools were destroyed (Li 2007), depriving 800,000 children of education (Dukuly, 2004). In Timor-Leste, the percentage was even higher with an estimated 95 percent of classrooms destroyed or severely damaged in the violent aftermath of the 1999 referendum on independence. In Kosovo, Bosnia-Herzegovina and Mozambique, respectively, 65, 50 and 45 percent of schools required repair or reconstruction after war (World Bank, 2005a). The loss of providers of education can also be very substantial during conflict. In Rwanda, for instance, more than two-thirds of the primary and secondary school teachers either fled or were murdered, while the educational system in Cambodia was almost completely bereft of any trained or experienced teachers at the end of the Khmer Rouge terror regime (World Bank 2005a).

Population displacement is another major human capital cost. The *2005 Human Security Report* noted that while wars in the 1950s, 1960s and 1970s were associated with high death rates, they did not generate very large flows of displaced people (Human Security Centre, 2005). In contrast, contemporary armed conflicts usually result in large numbers of internally displaced persons and refugees. Human capital is also lost as a result of the emigration of skilled talent and labour. Entrepreneurs, professionals and intellectuals often leave conflict countries for better personal security and opportunities abroad.

### **Physical Capital**

The destruction of infrastructure is often the most visible consequence of armed conflict. The warring parties often directly target bridges and roads in order to gain a strategic advantage. Government spending on infrastructural maintenance also typically declines during conflict, due to the insecurity, a general decline in government revenues, and an increase in military spending. The loss of physical capital may be very substantial and can severely restrict the capacity for economic recovery in the post-conflict period. For instance, during the civil war in Mozambique some 40 percent of immobile capital in the agriculture, communications and administrative sectors was destroyed (Brück, 2001). The damage to physical capital has a significant impact on a country's productive capabilities. It also imposes serious hardships on civilian populations through the loss of safe drinking water, sanitation and power systems. Three years after the end of Liberia's civil war, for example, pipe-borne water and sanitation services were still mostly not available. Before the war, 45 percent of the urban population and 23 percent of the rural had such access (UNDP Liberia 2006).

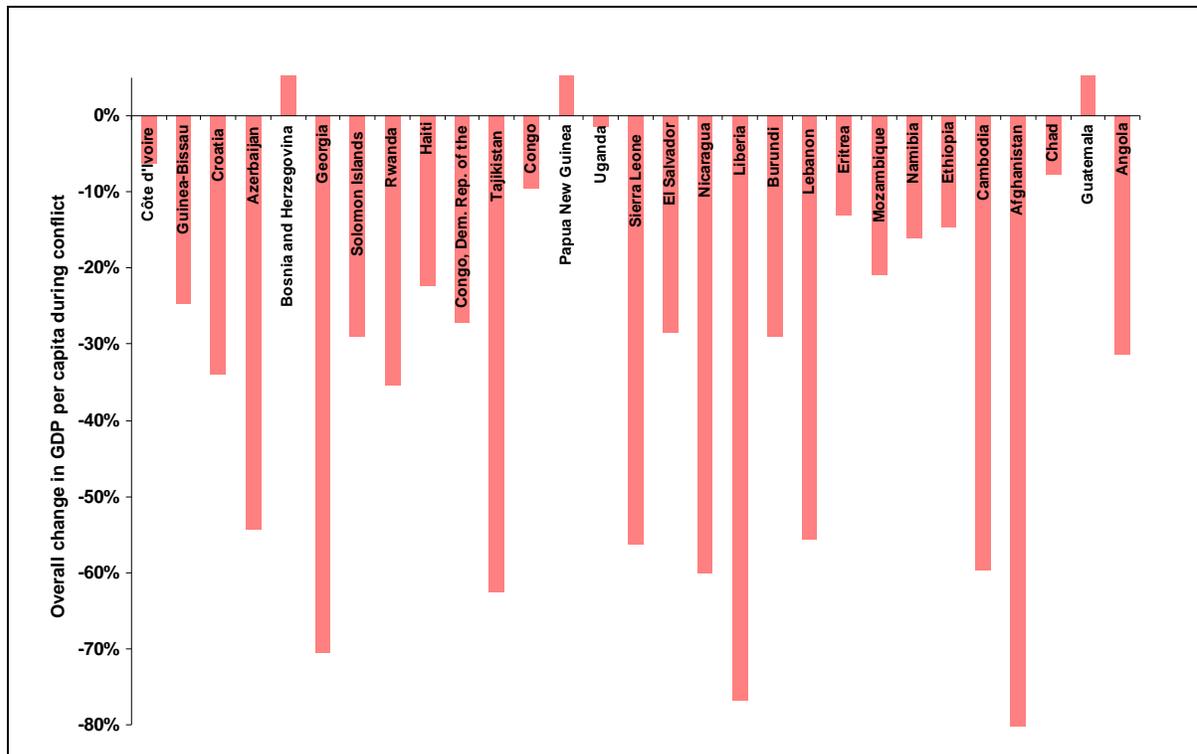
In post-conflict countries large land areas are frequently rendered inaccessible by landmines and other unexploded ordinance. In 2001, 25 years after the end of war, Cambodia still had more landmines and unexploded ordinance than any other country in the world. There were 6,422 villages (46 percent of the total) contaminated (Collier et al., 2003). Clearly, the

prospects of economic recovery are severely hampered in such situations, by the risk to life and discouragement of agricultural production. The assets of the poor are often lost or abandoned following forced migration or expropriation by combatants. In Uganda, a survey among households who fled the violence in the centre of the country during the civil war in the mid-1980s, found that two-thirds of respondents had lost all their assets as a result of the violence as well as the extensive looting by both sides (Matovu and Stewart, 2001.)

### **Economic performance**

Conflict almost always affects the rate of growth of a country's economy as a result of the negative impacts on physical and human capital as well as disrupted markets and reduced trust. The growth impact of conflict differs significantly from country to country, depending in part on the proportion of the population actually fighting, the duration and geographical spread of the conflict, and the extent to which the central government has collapsed. For instance, where armed conflicts are concentrated in peripheral areas, such as with Uganda's northern insurgency, the economic engine of the country may be largely unaffected. However, where armed conflicts spread throughout a country's territory, as in Afghanistan, Cambodia and Mozambique, they usually cause immense economic damage.

Figure 1 shows the impact of conflict on GDP in selected post-conflict countries. While there are significant differences in the reduction in GDP per capita among conflict-affected countries, the effect of war is typically largely negative. The overall effect of a conflict on a country's GDP per capita depends on the average growth rate it is able to maintain during conflict and on the duration of its conflict. GDP per capita growth during conflict was strongly negative in Afghanistan, Azerbaijan, Croatia, Georgia, Guinea-Bissau, Liberia, Nicaragua, Rwanda, Sierra Leone, Solomon Islands, and Tajikistan. In Angola, Chad Mozambique and Uganda, the average annual decline in GDP per capita was more modest at below 2 percent. In exceptional cases, a few countries have experienced positive growth over their conflict periods, with Bosnia and Herzegovina, Guatemala and Papua New Guinea having higher levels of GDP per capita at the end of conflict than at the beginning. Several factors may account for these differences in growth trajectories, including the characteristics of the country's economy, the reaction of the international community and the geographical scope, intensity and duration of the conflict.

**Figure 1: Change in GDP per capita in selected conflict-affected countries**

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

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

#### 4. Objectives and approach to post-conflict recovery

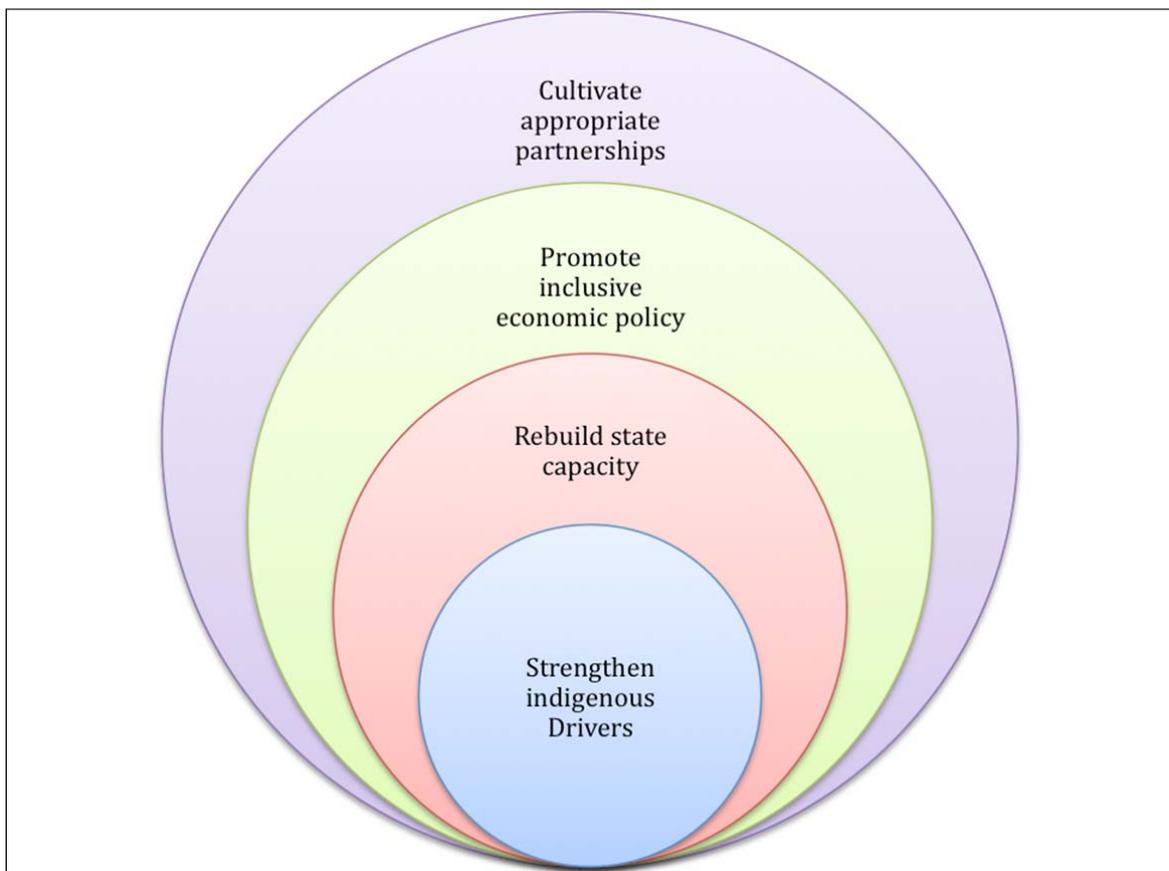
Post-conflict recovery is not a return to the *status quo ante bellum*. Indeed the country's existential conditions may have contributed to the onset of conflict. Recovery involves a number of competing urgent actions, including the restoration of basic safety and security, the rehabilitation of ex-combatants, internally displaced persons and returning refugees, and the restoration of core government functions at the national local and community levels. It also means restoring basic social services, particularly water and sanitation, primary education and health services, restoring political processes and promoting reconciliation, and rehabilitating the economy, including through employment generation and livelihoods restoration, as well as the rehabilitation of basic infrastructure (United Nations, 2009).

Appropriate timing and sequencing among priorities often require trade-offs within a recovery strategy. Promoting conditions that make the resumption of conflict less likely is clearly a primordial requirement. The insecurity and sporadic violence that often persist, even after the ostensible end of conflict, require early emphasis on security. Similarly, generating livelihood opportunities and addressing land and property issues may also require early emphasis because they engender confidence in people of a return to normalcy. On the other hand, while electoral processes can help restore political legitimacy, rushing into them could be a major source of tension and renewed conflict. Historical evidence seems to indicate that the most important challenge of the first two years after conflict is to ensure that actions or decisions do not prejudice the long-term sustainability of peace (United Nations, 2009).

### Indigenous drivers of recovery

As indicated in the introduction, it is useful to view economic recovery as a series of overlapping policy actions. The sets of action may be clustered into four categories: strengthening indigenous drivers of recovery, rebuilding state capacity, promoting inclusive economic policy and cultivating appropriate partnerships (see figure 2). The obvious starting point is to promote indigenous drivers. In even the most war-damaged environments, economic activities have been continuing and populations have retained some ability to rebuild, based on their own resources, ingenuity and energies. There is always some spontaneous initiation of recovery as soon as conflict ends. People return to their homes and livelihoods, or adapt to new conditions and begin to engage in various types of income-generating activity. The natural foundation for economic recovery lies in mobilizing this energy and nurturing the 'indigenous drivers' of economic recovery.

**Figure 2: Main Phases of post-conflict economic recovery**



This means promoting the efforts and initiatives of local communities, individuals, households and enterprises that stimulate and impel economic activities. Local actors have the strongest incentives to rehabilitate their own livelihoods after war. Post-conflict recovery policies that harness and build on local capacities and on social processes and interactions on the ground are more likely to be successful and self-sustaining in the long run, because they respect local conditions and people's actual circumstances.

The indigenous drivers emphasis suggests that "national ownership" should be non-negotiable. It insists that people and communities, as well as national institutions, should lead in establishing the specific priorities for reshaping or reforming institutions and restarting the economy. It also goes beyond the familiar notion of capacity building. Nurturing

indigenous drivers requires explicitly identifying the capacities, capabilities and tensions inherent in systems and processes and in organizational, community and even national dynamics as observed in the immediate aftermath of conflict. Recovery policies should respect these dynamics even as they determine where they may need to be modified or strengthened.

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

- National actors must take the lead in the recovery process. The best support for post-conflict countries is to work with them to build the leadership capability in the shortest possible time.
- It is essential to build on what is left after the conflict. For instance, to help the quick restart of the next crop cycle, partially damaged crops could be salvaged, seeds provided and tools (such as farm implements, fishing nets and canoes) provided.
- Where pre-war structures and practices were not a source of tension, it is important to draw on them to re-establish local consultative mechanisms and local capacity for economic and social development.

This approach places local actors, institutions and resources at the centre of economic recovery, but it extends, just as crucially to the national level. At the national level, considerable resources are required after war for rehabilitation and reconstruction. A key factor in determining whether the early impetus for economic revival translates into sustainable recovery and longer-term development is the leadership and capacity of the post-conflict state. Dynamic leadership is needed to ensure that the productive energies and assets of households, communities and enterprises can be channelled towards the recovery effort.

### **Rebuilding state capacity**

The leadership of the state is needed to foster and protect an enabling environment for economic activity that can promote both security and growth. The efforts of communities will be hindered unless state institutions quickly become effective and are able to provide essential public goods. Since conflict invariably undermines the legitimacy of the state, one of the most important priorities for the post-conflict leadership is, perhaps, to re-establish legitimacy and rebuild its authority. The notion of indigenous drivers applies with equal force at this level also. The broad peace-building community now generally recognizes the indispensability of local leadership in re-establishing a functioning state after conflict ends (OECD, 2007). This is why it has now placed a high premium on assisting war-torn states to rebuild the institutions, rules and capacities for accountable and effective governance and, in some cases, to redress the legitimacy and capacity deficits that may have contributed to armed conflict in the first place.

The ultimate measure of an authoritative, legitimate and effective state is one that has established a 'social contract' entailing the reciprocity between the state's provision of essential services and citizen acceptance of its authority. Restoring state legitimacy requires the restoration or installation of institutions that foster an inclusive political process. Promoting an inclusive political system is really critical where exclusion is severe. It mitigates the risks of conflict recurrence that may be posed by an absence of voice for some groups in dealing with extant socioeconomic and inter-group inequalities.

The post-conflict government needs to quickly install the core capacities it needs to provide basic services and essential public safety, strengthen the rule of law, and protect citizen rights. Visible peace dividends that are attributable to the national authorities, such as employment generation or returnee rehabilitation, are critical to building the confidence in the post-conflict government. To regain the confidence of the population and rebuild trust after years of uncertainty and violence requires the provision of jobs and basic social services for individuals and households. For communities and local government that means revenue

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

Training or retraining civil servants and public sector managers is essential as soon as hostilities end. Incentives should be developed to attract displaced nationals and those in diaspora to return to the service. Among the most critical institutional requirements is the establishment of mechanisms for oversight, accountability and financial controls. Sustainable economic recovery requires that the post-conflict government have the institutional, administrative and fiscal means to underwrite the provision of these services. This depends, in turn, its ability to mobilize, allocate and spend domestic revenues. The payment of taxes by the citizenry is an essential aspect of the social contract that needs to be rewritten. Restoring fiscal capacity means strengthening capacities at the local and community levels also for revenue mobilization. It is also essential to control corruption and rent seeking, especially in states with abundant natural resources.

Recovery efforts must work with and from the political, institutional and resource endowments actually available on the ground. These may include informal institutions and forms of governance that lie outside the generally accepted model of the developed countries.

## **5. Post-conflict economic policy**

Conflict typically leaves countries with severe macroeconomic problems. A shrunken economic base, moderate to high inflation, chronic fiscal deficits, high levels of external and domestic government debt and low domestic government revenues are among the more prominent features of these economies.

The first few post-conflict years are crucial to long-term economic recovery. While quick action is often required, this is not necessarily a time for radical action. Rather it is a period for establishing policies that are most appropriate to creating the conditions for recovery. Good post-conflict macroeconomic performance requires a sequential approach to reforms. It strives to bring down inflation as soon as possible to single digits. It actively promotes job creation and the expansion of livelihoods and it solicits the return of private investment.

A return to steady and respectable growth is essential for sustainable economic recovery, but growth alone does not define recovery. It is particularly important in post-conflict settings that growth be inclusive, broad based and conflict sensitive. Recovery is likely to be more sustainable when it benefits the vast majority of the population, rather than a small group. Restoring jobs and livelihoods helps consolidate peace by giving young people alternative opportunities and incomes. Macroeconomic policy must also give priority to minimizing conflict risk, even as it promotes growth. Conflict-sensitive economic policy may mean, for instance, tolerating some macroeconomic heterodoxy. For instance, most post-conflict countries are beset by hyperinflation, which needs to be brought down as soon as possible. It may be necessary however, to tolerate in the short term, higher inflation and budget deficit levels than would be considered "normal". While there is no unique path to recovery, experience shows that post-conflict countries that have emphasized social inclusion and equity enjoy a stronger recovery and are less likely to fall back into conflict. The promotion of growth must be self consciously broad-based and inclusive.

The sequencing of policy actions is particularly important in post-conflict settings. The imperative of reducing conflict risk indicates pragmatic macroeconomic policy. Done properly, sequencing of reforms strengthens the reformers in government and builds the political will and institutional capacity to design and implement more difficult reforms later on. Such a gradual approach also allows post-conflict authorities to build the self-confidence and general goodwill that can then be deployed for more complex reforms. More complex

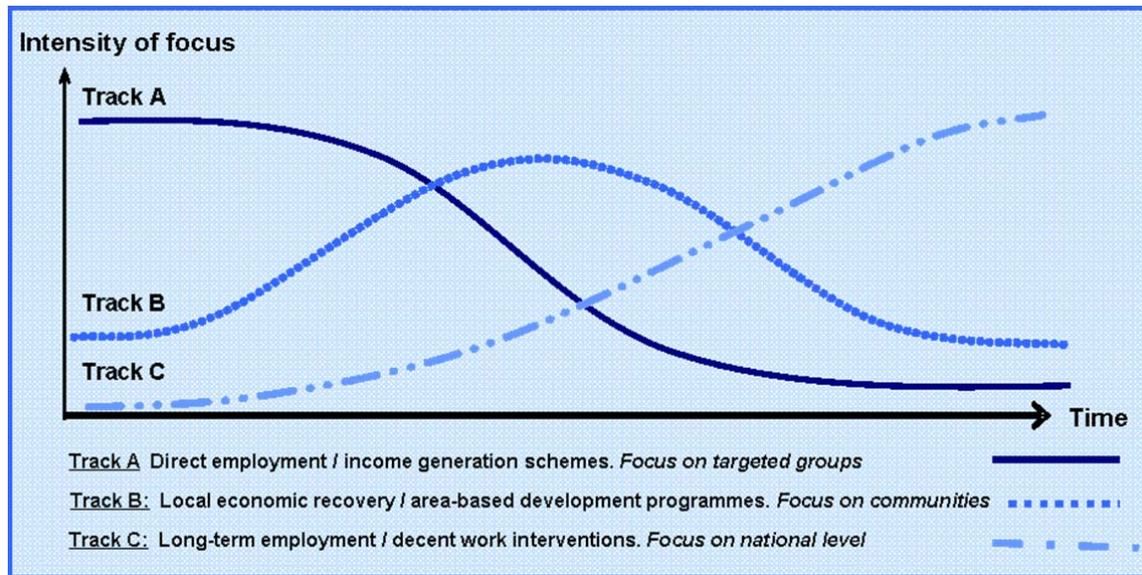
reforms, particularly in the domains of financial liberalization and privatization, risk backfiring if the appropriate regulatory regime is not in place. Reforms should be introduced in a way that is compatible with the realities of the domestic political economy in each country. Specifically, successful recovery requires the leadership of governments and domestic political elites that are serious about economic reform and consolidating peace.

Employment creation and the recovery of livelihoods are particularly urgent because they help reduce the probability of conflict resuming and ultimately save on outlays for security and crime prevention. Employment programmes are especially important for ex-combatants, as regular work in civilian jobs helps create a sense of normalcy and routine, which contributes to social stability. Public employment schemes also serve as transitory mechanisms: private sector employment begins to kick in only after recovery has gained some momentum. Moreover, civilian employment helps ex-combatants recover more 'normal' social and emotional networks, which were lost while they were in a military unit (McLeod and Dávalos, 2007).

A useful approach to post-conflict employment creation is the three-track approach proposed recently by the United Nations (United Nations, 2008). Developed to guide the work of UN entities at country level, the policy proposes three distinct but mutually reinforcing tracks of employment policies and programmes (see Figure 3). The first track aims to consolidate security and stability with high-visibility, labour-intensive public work programmes that provide temporary jobs, strengthen local skills and rebuild economic and social infrastructures. It contains short-term responses like emergency employment schemes and basic start-up grants, and it targets primarily (but not exclusively) conflict-affected individuals, such as youths and ex-combatants, who are at a high risk of relapsing into violence. Ideally, public work programmes should support indigenous drivers by, for instance, awarding contracts to local organizations and firms to help build skills and foster local enterprise capacities.

The second track focuses on the larger community and is aimed at building local labour demand by stimulating local economic recovery. This entails investments to restore the local economic infrastructure and local institutions, rebuild local government capacity and stimulate private sector development, for instance, by offering employers wage supplements. The third track is national in scope and aims at long-term employment creation and stimulation of decent work opportunities via macro-economic policy. The goals include changing industrial structures, nurturing the domestic private sector, stimulating labour intensive industries and inducing foreign investment. It begins, ideally, immediately after conflict ends and is intensified as stability is restored. A major aim of the whole process is to encourage a transition from aid-supported employment creation that predominates in Track A to self-sustaining private and public sector job creation.

**Fig 3: The three tracks of a post-conflict employment strategy**



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

Source: Based on United Nations, 2008, page 17

Three considerations are important regarding post conflict employment creation. First, the three tracks should be activated as soon as conflict ends. Sometimes, it is possible for some efforts to be initiated even before hostilities have subsided totally. At the very least, a substantial part of the planning should take place before the end of conflict. Second, as the private sector is the only effective guarantee of jobs in the long run, it should be involved in activities from the beginning. Third, the private sector is quite small in many post-conflict situations. It is important in these situations to nurture the creation of small enterprises by removing administrative and other barriers and providing incentives such as low taxes and wage subsidies.

## 6. Cultivating essential partnerships

Recovery is anchored at the community level and it requires not only state support, but also active partnership with the private sector. Community efforts to rebuild and strengthen their livelihoods will be constrained unless private investment recreates markets and generates employment (Addison 2003). Moreover, while the indigenous driver approach to recovery places community and national level actors, institutions and resources at its centre, it also recognizes that the considerable resources required after war are usually beyond the means of governments. External assistance is needed to support and complement the activities and actions of the national drivers.

### Attracting private investment

Recovering economies need to be particularly creative in soliciting the return of private investment. Attracting the private sector requires the assurance, as soon as possible, of physical security, property rights protection and transparency in the justice system. These requirements are particularly central to improving the business climate in the high-risk environments of post-conflict economies. Laying the basis for these in the immediate aftermath of the conflict may raise the confidence of domestic and foreign investors alike in the future of the economy. It is important to empower local entrepreneurs in the first instance.

The revitalization of local enterprise is not only essential to economic recovery, but it also signals the beginning of a return to 'normalcy'. Important steps for engaging the local business community include providing access to finance and, even more importantly, cultivating its continuing participation in policy dialogue with the government and policy makers.

Promoting foreign investment is equally urgent. The risk perception of private enterprise delays its entry into post-conflict environments. For instance, even in resource-rich economies, investors may be quick to pursue exploration contracts, but may delay long-term investments in production until they are better assured of a country's stability. Incentives such as tax allowances and political risk insurance may encourage foreign investors to enter the post-conflict market earlier. Extending political risk coverage to domestic and regional investors may encourage them to invest earlier than they were previously considering.

It is important, however, to be realistic about investment opportunities. The active participation of large foreign corporate enterprises and transnational corporations in the post-conflict situation would represent a strong vote of confidence in local stability. However, investment from these entities is unlikely to materialize in the short term. Policy makers may want to focus, therefore, on smaller investors from within or from countries in the immediate region. These actors would have greater familiarity with local conditions and may well have a stake in local economic recovery beyond simple economic calculus. The reasons for such additional interest from regional enterprises may well include strong cultural linkages.

Perhaps the most important incentive would be a mechanism that enables risk sharing. A robust risk-sharing facility would help bridge the gap between private and social returns that is a typical feature of post-conflict situations. While private returns to the investor may be low, the social returns are usually considerable. These include the signalling that peace has returned that may attract in additional investment, and the employment generated that may reduce conflict risk. This divergence between private and social returns suggests that a publicly funded financial facility may be an especially important market failure correction mechanism. Such a facility could, for instance, bear much of the cost of doing project design and financial structuring in a fully consultative and conflict-sensitive manner. It could also share in the cost of borrowing as an incentive for early entry into high-priority sectors such as energy, construction or export industries (UNDP, 2008).

### **Mobilizing external assistance**

It is now overwhelmingly accepted that the overriding principle behind all external assistance must be to 'do no harm'. This means, in the first instance, that any action that could stir up social tensions or otherwise increase the likelihood of a relapse into conflict must be avoided. External assistance strategies must thus take full account of the political, ethnic and religious dynamics that have emerged from or may have contributed to conflict in the first place.

Specifically, external assistance must aim to support and complement ongoing indigenous efforts. The obvious starting point would be to go beyond the usual post-conflict needs assessments that the international community undertake in the immediate aftermath of conflict. These should be complemented with a capabilities assessment to determine what exists. Additionally, a "quick and dirty" analysis of the broader political economy issues would help ensure that aid is properly grounded on what and how people are already contributing to the recovery process.

Substantively, external assistance should aim to provide a stronger platform for further locally grown initiatives, paying particular attention to the obstacles and unmet needs that may be constraining the efforts of community and national level actors. Partners should invest in local resources, procure supplies locally as much as possible and enhance the capacity of the private sector. External partners need to avoid excessive reliance on parallel mechanisms to deliver development assistance. Instead, they should carefully weigh the

additional costs of routing assistance through relatively weak state systems against the benefits of building the state's capacity to manage and deliver services to its citizens.

External assistance can provide much-needed breathing space to governments to build political consensus and goodwill, engage in broad internal consultations and plan better for the medium term. This requires from external partners early and more predictable disbursements of aid, as well as faster and deeper debt relief, in a manner that gives additional discretion to the beneficiaries. For governments of countries in recovery, it means using the early dividends and space provided by external assistance to restore and reform institutional capacities and the policy-making process.

External assistance should be provided under limited conditionality as much as possible. This would give post-conflict national leaderships the discretion to make context-appropriate decisions on the utilization of aid. Post-conflict countries may wish to use aid to cover some of their budget deficits, which are often quite large. By providing financing to cover part of the gap between domestic revenues and expenditures, aid complements domestic revenues and enables the implementation of additional priority expenditures. External resources, including aid, can also be 'saved', to build up reserves, lower debt and help stabilize their exchange and inflation rates. Questions regarding what proportion should be spent, what amount should be absorbed and for what purpose, must be based on a sound analysis of the needs and constraints facing the economy. Typically, a strong case can be made for spending most of the ODA received so as to help finance larger fiscal deficits in the face of massive recovery needs. But it may also make sense to save some of it, depending on such considerations as the level of debt and the characteristics of the export sector.

A substantial amount of external assistance in post-conflict settings is typically provided in the form of technical assistance. In these situations, also, the theme should be to build up local capacities. It is now mostly accepted that relying too heavily on imported capacity can undermine local capacities and the rebuilding of skilled domestic competencies by putting off investment in domestic human resources. Drawing on its accumulated experience from supporting dozens of countries emerging from conflict, the United Nations recommends using and supporting national capacity as the first preference for international assistance. Where there is need for international expertise, regional experts would be most effective, given their knowledge of local languages and conditions. The substitution of international capacity to perform critical recovery tasks should not undermine or replace existing national capacities and should be accompanied by efforts to develop the necessary capacity. In particular, external partners should provide "early and sustained support" to the civil service and local institutions to provide adequate compensation and conditions for professionals who remain within domestic structures, where their contribution to recovery may have the greatest impact, rather than move to work with international organizations (United Nations, 2009).

National actors should take the lead in reviving the economy and restoring institutional capacities. Again, the United Nations recommends that when the international community is requested to provide technical capacity to support line functions in national governments, a capacity development programme must be part of such support. Allowing for local personnel to work and train alongside foreign experts may temporarily raise the cost of recovery programme. But, in the longer-term it strengthens the recovery process by reconstituting domestic capacity on a more sustainable basis.

## **7. Conclusion**

This chapter examined the notion of post conflict recovery and discussed the actors, policies and partnerships that are required to restart economic development in the aftermath of violent conflict. It highlights what actions national authorities should take and how the international community can be most helpful.

Successful post-conflict recovery requires growth rates that permit a structural break with the past. It also requires a pattern of growth that helps to reduce the risk of conflict recurring. As such, growth must be accompanied by employment expansion and action to reduce horizontal inequalities.

Conflict diverts resources from production to destruction. The economic legacy of conflict includes the widespread destruction and degradation of human and physical capital; the collapse of growth and flight of capital; loss of employment and livelihoods; and weakened governance institutions and social networks.

Because post-conflict countries differ from one another in important respects, a fundamental requirement is for recovery programmes to be context-appropriate and based on an assessment of the particular circumstances of the country. In even the most war-damaged environments, economic activities have been continuing and populations have retained some ability to rebuild, based on their own resources, ingenuity and energies. When conflicts end, people return to their homes and livelihoods, or adapt to new conditions as necessary. The natural foundation for economic recovery lies in mobilizing this energy and nurturing the 'indigenous drivers' of economic recovery.

The leadership of the state is needed to foster and protect an enabling environment for economic activity that can promote both security and growth. The efforts of communities and the private sector will be constrained unless state institutions are able to provide essential public goods. The post-conflict government needs to quickly install the core capacities to provide basic services and essential public safety, strengthen the rule of law, and protect citizen rights. Visible peace dividends are critical to regaining the confidence of the population and rebuilding trust after years of uncertainty and violence.

Conflict typically leaves countries with severe macroeconomic problems, including a shrunken economic base, moderate to high inflation, chronic fiscal deficits, high levels of external and domestic government debt and low domestic government revenues. Macroeconomic policies must give priority to minimizing conflict risk, even as they promote growth. This may mean accepting some heterodoxy, such as tolerating moderate inflation and budget deficits for a time.

Reforms should be introduced in a way that is compatible with the realities of the domestic political economy in each country. Specifically, successful recovery requires the leadership of governments and domestic political elites that are serious about economic reform and consolidating peace.

Employment programmes are especially important in post-conflict situations, especially to reintegrate ex-combatants and other displaced people. Employment creation requires a three-track approach, beginning with an initial focus on restoring stability with public work programmes that provide temporary jobs and rebuild war-damaged economic and social infrastructures. The second and third tracks focus, respectively on community level programmes and national and macro-level initiatives.

Community efforts to rebuild and strengthen their livelihoods will be constrained unless private investment recreates markets and generates employment. Attracting the private sector requires the assurance, as soon as possible, of physical security, property rights protection and transparency in the justice system. It is important to empower local entrepreneurs in the first instance. The revitalization of local enterprise is not only essential to economic recovery, but it also signals the beginning of a return to 'normalcy'.

It is important, however, to be realistic about investment opportunities. While the active participation of large foreign corporate enterprises would represent a strong vote of confidence in local stability, this is unlikely to materialize in the short term. Policy makers should focus, therefore, on smaller investors from within or from countries in the immediate region.

The considerable resources required after war are usually beyond the means of post-conflict governments. External assistance is needed to support and complement the activities of the national drivers. Specifically, external assistance must aim to support and complement ongoing indigenous efforts. The international community should complement the usual needs assessment with a capabilities assessment to determine what exists on the ground. A “quick and dirty” analysis of the broader political economy issues would also help ensure that aid is properly grounded.

Substantively, external assistance should aim to provide a stronger platform for further locally grown initiatives, paying particular attention to the obstacles and unmet needs that may be constraining the efforts of community and national level actors. External assistance can be very important for recovery, especially in the early stages. But the management of aid must be subject to the logic on promoting and using indigenous drivers and should never be a vehicle to promote parallel systems.

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