The Reconstruction of War-Torn Economies and Peace-Building Operations

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Abbreviations

FINNIDA	Finnish Aid Agency
FMNL	Farabundo Marti National Liberation Front
IDA	International Development Association
ONUSAL	United Nations Observer Mission in El Salvador
PNC	National Civilian Police
QIP	Quick Impact Project
UNTAET	United Nations Transitional Administration for East Timor

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Executive Summary

This study surveys the issues involved in providing development assistance to war-torn economies, and makes a number of policy recommendations. The problem merits attention, because almost 8 million people have died in wars over the past decade, raising the total of war-related deaths in the twentieth century to at least 130 million. In 2001 an estimated 22 million people were either refugees or internally displaced, as a consequence of war. Wars typically set back economic development for a generation. The experience of the past three decades shows that even after they had enjoyed ten years of peace, almost no countries had returned to their pre-war levels of income.

Although the prevention of war would be desirable, it is difficult to predict where war will erupt. Most recent wars have been civil wars, and are drawn out, without a clear beginning, middle and end. African wars often have an ethnic dimension, and in about half of all wars the central government collapses. Post-war governments are typically weak, but economic development cannot be sustained until a viable and inclusive administration is in place.

War-torn economies differ in several ways from peaceful economies. During wartime, countries typically experience low and falling GDP, extensive population movements, widespread insecurity, worsening infrastructure, macroeconomic imbalance, low government revenue mobilization, a renewed emphasis on subsistence agriculture, worsened social indicators, and weakened institutions. The combined weight of these problems depresses incomes and growth long after the period of conflict comes to an end. There are a few positives: donors are typically keen to help with reconstruction, there is often a pool of émigrés who may serve as a source of funds and even skills, and economic and political reform is comparatively easy to undertake because there are few entrenched interests to block it.

Given the unique characteristics of war-torn economies, what needs to be done? Traditionally donors have focused on humanitarian relief (including helping refugees), the restoration of basic infrastructure, and (increasingly) on political rehabilitation. We argue that economic rehabilitation, and especially the re-creation of viable economic institutions, is also essential, and complements the political and security elements of peacebuilding. While most observers now agree

with this general proposition, there is a lively academic debate on the specific measures that need to be taken. We conclude, somewhat controversially, that post-war governments should generally be small; macroeconomic reforms should be introduced rapidly; there is no need deliberately to undervalue the exchange rate to attract back investors; émigrés are hard to attract home; land reform cannot realistically be an early priority; and donor conditions on aid should, initially at least, be minimal and credible.

It is not enough to determine what needs to be done; it is also important to know when – i.e. to sequence reforms properly and, implicitly, to make choices about what to do and what not to do at any point in time. The main lesson is that one must move quickly, especially with the stroke-of-the-pen measures, which include opening up to trade, getting an appropriate exchange rate, cutting inflation, bringing the budget deficit to a manageable level, and petty privatization. Most other issues simply cannot be resolved so quickly, and will need to wait; they include the privatization of large enterprises, and land reform.

The issues were illustrated with a number of case studies, including

Uganda:	solid post-war economic recovery, but rehabilitation of health and education proved difficult;
East Timor:	strong, effective effective UN presence, but inadequate attention to building local capacity;
El Salvador:	successful school decentralization, but it was difficult to professionalize the police;
Mozambique:	FINNIDA health project succeeded, due to long-term commitment;
Bosnia:	World Bank was effective in a complex environment, but made little progress on demining.

A number of simple lessons may be drawn from these examples.

- First, there are many ways in which donors can usefully help with post-war economic recovery.
- Second, projects in war-torn economies must allow for flexibility, as conditions change rapidly.
- Third, it is vital to have very good personnel to oversee projects.
- Fourth, it is important to develop local capacity and work closely with local partners.
- Fifth, donors should recognize that some projects, however worthy on paper, may be premature if the managerial structures are still too weak.
- Sixth, donors have different strengths, and should play to their comparative advantages – for instance, infrastructure and institutional

building for Japan.

- Seventh, recovery is very slow, and requires long-term commitments by donors.

Japan provides a generous 22% of all aid worldwide, but accounts for just 12% of all aid channeled to war-torn economies. This pattern is not surprising, for two reasons. First, Japanese aid is largely directed to the countries of East, Southeast and South Asia, countries that have been comparatively free from conflict. Second, a high proportion of Japanese aid takes the form of loans, which are inherently less well-suited for war-torn economies than are grants. The draft JBIC *Medium-Term Strategy for Overseas Economic Cooperation Operations,* which covers 2002-2005, makes no significant mention of war-torn economies. Nonetheless, Japan has funded projects in some war-torn areas including, for instance, temporary housing in Kosovo in 1999. Directly and indirectly Japan contributes about $1.5 billion annually to foster the development of war-torn economies.

It is not clear that Japan should be doing more to help war-torn economies. The country already contributes heavily to multilateral agencies, such as the UN High Commissioner for Refugees, which play an important role in post-conflict societies. And some of the key tasks – coordinating donor efforts, helping the government achieve macroeconomic stabilization – play more to the strengths of organizations such as the World Bank.

If it wants to play a greater role,

1. JBIC could move more quickly to lend to war-torn economies, either alone or with other donor agencies. War-torn economies almost always need substantial investment in sectors such as power, telecommunications and infrastructure, which are areas of traditional JBIC strength. It is also important that development aid begin to arrive quickly – bridging “the gap” – lest humanitarian relief efforts go on too long.
2. JBIC could consider smaller projects for war-torn economies. Most war-torn economies are small, and have difficulty handling projects as large as the typical JBIC one.
3. JBIC could usefully coordinate more closely with JICA in crafting a package of help for war-torn economies.
4. JBIC might consider the establishment of a trust fund, designed to finance pilot and pre-project activities in war-torn economies. This would allow JBIC to move quickly, gain experience on the ground, and look for good funding opportunities without yet committing large sums of money.

The Reconstruction of War-Torn Economies and Peace-Building Operations

1 Introduction

How much special attention should aid agencies pay to post-war reconstruction? How, if at all, does post-war economic reconstruction differ from the "normal" problems faced by aid donors wishing to foster economic development? And what role does, and might, Japan, and particularly the Japan Bank for International Cooperation (JBIC), play in providing development assistance to war-torn economies? These are the key issues addressed in this paper.

Throughout, it is assumed that the underlying goal is to set the war-torn economies on the path to sustainable development. This requires us both to determine what policies are needed, and in what order, to move a war-torn economy from devastation to a path of sustainable economic recovery, as well as to set out the potential role of aid donors in this process.

We start by asking how widespread and serious war has been in the recent past; if war were rare or unimportant then special attention to war-torn economies would barely be warranted. The evidence shows that almost 8 million people have died in wars over the past decade, and war sets back economic development for a generation. The problem is therefore worthy of further attention.

We then set out the special characteristics of war-torn economies, because if they were no different from peaceful economies they would not merit special treatment. We find that during wartime, countries typically experience low and falling GDP, extensive population movements, widespread insecurity, worsening infrastructure, macroeconomic imbalance, low government revenue mobilization, a renewed emphasis on subsistence agriculture, worsened social indicators, and weakened institutions. The combined weight of these problems depresses incomes and growth long after the period of conflict comes to an end.

Having established that war-torn economies have unique characteristics, the next question is what needs to be done? Traditionally donors have focused on humanitarian relief (including helping refugees), the restoration of basic infrastructure, and (increasingly) on political rehabilitation. We argue that economic rehabilitation, and especially the re-creation of viable economic institutions, is also essential. While most observers now agree with this general proposition, there is a lively academic debate on the specific measures that need to be taken.

It is not enough to determine what needs to be done; it is also important to know when – i.e. to sequence reforms properly and, implicitly, to make choices about what to do and what not to do at any point in time. Taking a pragmatic approach we suggest in some detail what steps need to be taken, and when. The purpose of this is to give a clear sense of where donors might in principle play an important role. We round out this section with a sampling of successful and unsuccessful aid projects in war-torn economies and draw some lessons from these examples.

Although helping war-torn economies is not formally one of its priorities when granting development assistance, Japan has in fact provided considerable assistance to such economies. We document the scale of this support, bring it to life with some examples, and relate it to official policy in this area.

Could, and should, Japan (and particularly JBIC) be doing more to help war-torn economies? The answer is not obvious, although on balance we do believe that Japan could usefully play a stronger and more timely role in infrastructure rehabilitation – an area of traditional strength – as well as in institutional development. It needs to be recognized, however, that development assistance to war-torn economies is risky, its effectiveness is difficult to evaluate, and there is no simple manual that shows one how to proceed.

2 How Common Is War?

Since 1990, an estimated 7.8 million people have died as a direct or indirect result of war, bringing the total war-related deaths in the twentieth century to between 130 and 142 million (Leitenberg 2001). Table 2.1 lists the countries that have faced war since 1970. It provides approximate dates of the conflicts, and the best available (but frequently imprecise) estimates of the number of casualties. To be included on this list, and hence to be considered as "war-torn," a country had to have experienced at least 20,000 deaths since 1970, or at least 100,000 refugees or internally displaced as of the end of 1994 or 2000. Measuring the number of homicides is not enough; almost 300,000 people have been murdered in the United States since 1970, but the country is not generally thought of as war-torn.

Table 2.1 Death and Displacements in Wartime, 1970-2001

			Pop (m)	Deaths ('000)					Refugees ('000)		Int'l Displaced ('000)	
			2000	1970s	1980s	1990s	Total	% of pop	End 1994	End 2000	End 1994	End2000
World												
All countries	1970-2001		3,637	3,423	8,275	7,584	19,182	0.53%	14,685	13,935	19,859	18,355
Latin America & Caribbean												
Columbia			42				8	0.02%		10		525
	1980-95	Domestic rebellions			8							
El Salvador			6				73	1.22%	16	230		<5
	1979-91	Civil war			73							
Guatemala			11				104	0.95%	45	100	200	<5
	1966-1995	Killing of native Americans		47	47	10						
Nicaragua			5				65	1.30%	23	16		<5
	1978-79	Sandinista uprising		35								
	1981-89	Contra rebellion			30							
Peru			26				25	0.10%		<6	600	60
	1981-95	Shining Path rebellion			25							
Asia												
Afghanistan			27				2,500	9.26%	2835	3600	1000	759
	1978-92	USSR in civil war			1,500							
	1991-95	Civil war				1,000						
Bangladesh			130				1,500	1.15%		<6		<5
	1971	Civil war/Indian intervention		1,500								
Bhutan			1				0	0.00%	132	144		<5
	1990-	Ethnic tension (vs. Nepalese)										
China			1,261				0	0.00%		145		<5
	1980-	Ethnic tension – Tibet, west										
Cambodia			12				2,226	18.55%	30	16	113	<5
	1970-75	Civil war, US intervention		156								
	1975-78	Khmer Rouge vs. civilians		2,000								
	1978-89	Vietnam invasion/civil war			70							
East Timor	1999-2000		1				1	0.00%		120		<5
		Indonesian withdrawal				1						
India			1,016				41	0.00%		17		507
	1971	Vs. Pakistan		20								
	1983-89	Ethnic/political, esp. Sikh			21							
Indonesia			210				101	0.05%		6		800
	1975-82	E. Timor: famine, killings		85	16							
Laos			5				40	0.80%		<6		<5
	1975-87	Govt./Vietnam vs. NLF		18	22							
Myanmar			46				11	0.02%	203	380	750	800
	1980	Communist revolt			5							
	1981-88	Rebellions (esp. Karen)			6							
North Korea			24				0	0.00%		50		100
	1990-	Internal repression										
Philippines			76				37	0.05%		57		150
	1972-88	Muslim revolts		17	20							
Sri Lanka			19				62	0.33%		110		707
	1971	Communist revolt		2								
	1983-89	Tamil uprising			15	45						
Vietnam			79				31	0.04%	295	300		<5
	1979	War with China			30							
	1980-88	Border dispute with China			1							
Middle East/North Africa												
Algeria			30				100	0.33%		50		150
	1992-2000	Islamic revolt vs. govt.				100						
Gaza/West Bank			3				3	0.10%	3137	4000		17
	1982-	Palestinian nationalism				3						
Iran			64				1,017	1.59%	54	51		<5
	1979-89	Govt. vs. opposition (esp. Kurds)			17							
	1980-88	War with Iraq			1,000							
Iraq			23				923	4.01%	636	450	1000	700
	1980-88	War with Iran			600							
	1988-89	Govt. vs. Kurds			167							
	1990-91	Gulf war				150						
	1991-	Govt. vs. Shia in South				6						
Lebanon			4				131	3.28%		<6	600	325
	1975-76	Civil war; Syria enters		81								
	1982-90	Israel invades, aftermath			50							

Table 2.1 (cont.) Death and Displacements in Wartime, 1970-2001

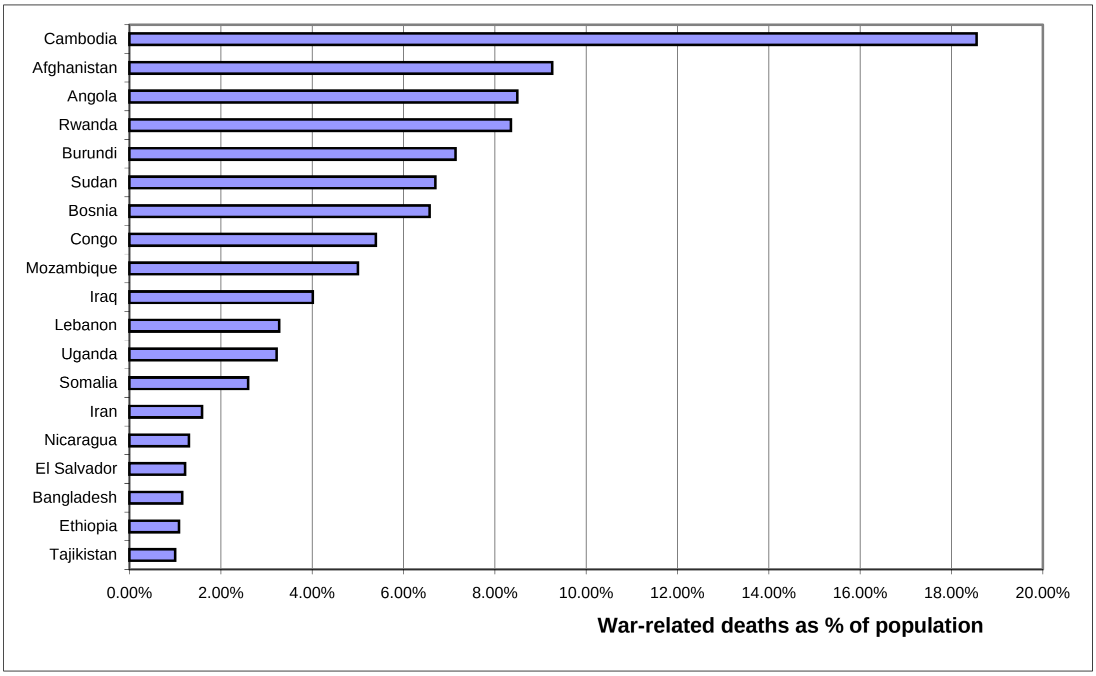
			Pop (m)	Deaths ('000)					Refugees ('000)		Int'l Displaced ('000)	
			2000	1970s	1980s	1990s	Total	% of pop	End 1994	End 2000	End 1994	End2000
Europe and FSU												
Armenia			4				5	0.13%	229	<6	150	<5
	1985-95	War vs. Azerbaijan				5						
Azerbaijan			8				5	0.06%	374	<6	346	573
	1989-95	War vs. Armenia				5						
Bosnia			4				263	6.58%	863	250	1300	518
	1992-95	Civil war, massacres				263						
Croatia			4				25	0.63%	137	315	290	34
	1991-92	Civil war				25						
Georgia			5				10	0.20%	107	26	260	272
	1992-	Ossetia, Abkhazia				10						
Kosovo							10					
	1995	Serb-Albanian tension				10						
Russia			146				30	0.02%	75	38	450	491
	1994-	Chechnya				30						
Tajikistan			6				60	1.00%	165	60		<5
	1992-	Civil war				60						
Syria			16				10	0.06%		<6		500
	1981	Hamah massacre			10							
Turkey			65				13	0.02%	13	36	2000	700
	1985-	Kurd rebellion			8	5						
Yugoslavia			11				0	0.00%		190		268
Africa												
Angola			13				1,104	8.49%	344	400	2000	258
	1975-	Civil war		204	800	100						
Burundi			7				500	7.14%	330	420	400	600
	1972	Hutus vs. government		100								
	1988-	Tutsis massac. Hutus, …			200	200						
Chad			8				0	0.00%		53		<5
		North-south rivalry										
Congo			51				2,750	5.39%		350		1800
	1998-	Civil war, foreign intervention				2,750						
Eritrea			4				37	0.93%	385	350		1100
	1974-92	Revolt, famine										
	2000	War vs. Ethiopia				37						
Ethiopia			64				696	1.09%	191	40	400	280
	1974-92	Eritrea revolt, famine		199	320	101						
	1976-83	Ogaden vs. Somalia		20	19							
	2000	War vs. Eritrea				37						
Liberia			3				5	0.17%	784	200	1100	111
	1985-88	Reprisals (coup attempt)			5							
	1990-95	Civil war				100						
Mauritania			3				0	0.00%		50		<5
		Internal conflict										
Mozambique			18				900	5.00%	325	<6	500	<5
	1981-88	Civil war and famine			900							
Rwanda			9				752	8.36%	1715	55	1200	150
	1992	Tutsi vs. Hutus				2						
	1994-95	Genocide vs. Tutsis				750						
Sierra Leone			5				30	0.60%	260	400	700	300
	1991-01	Civil war				30						
Somalia			10				260	2.60%	457	370	500	300
	1988-95	Civil war			10	250						
Sudan			30				2,010	6.70%	510	460	4000	4000
	1983-	Civil war			510	1,500						
Uganda			22				709	3.22%	15	20		500
	1971-78	Idi Amin massacres		300								
	1978-79	Tanzanian intervention		3								
	1981-85	Civil war			300							
	1981-89	NRA, internal conflict			106							
Western Sahara							0			110		<5

Sources: Milton Leitenberg, "Deaths in Wars and Conflicts Between 1945 and 2000," Center for International and Security Studies, University of Maryland, May 2001.
Ruth Leger Sivard, World Military and Social Expenditure 1996.
U.S. Committee for Refugees, World Refugee Survey 2001, Washington DC, 2001. Also World Refugee Survey 1995.
World Bank, World Development Report 2002, Washington DC, 2001.

The numbers are striking: Fully 44 of the world's 151 significant countries (defined as those with a population of a million or more) have been hit by war over the past thirty years. Nineteen countries lost at least 1% of their population to war; in nine of these cases the losses exceeded 5%, as Figure 2.1 shows. War has touched a lot of people. The collective population of the countries listed in Table 2.1 is 3,637 million, or 60% of the world population.

These wars have not been minor. Since 1970 there have been 19 million war-related deaths in the countries listed in Table 2.1, and one source estimates that two-fifths of those killed were children (Tessitore and Woolfson, 1996).[1] As Figure 2.2 shows, the number of refugees and asylum seekers stood at 13 million in 2001, only slightly below the level seen in 2000. The United Nations High Commissioner for Refugees (UNHCR) reports that almost 22 million persons were "of concern" to it at the beginning of 2001, including both refugees and many of the internally displaced (UNHCR 2001).

Figure 2.1 War-Related Deaths as % of Population, 1970-2001



Source: Table 2.1.

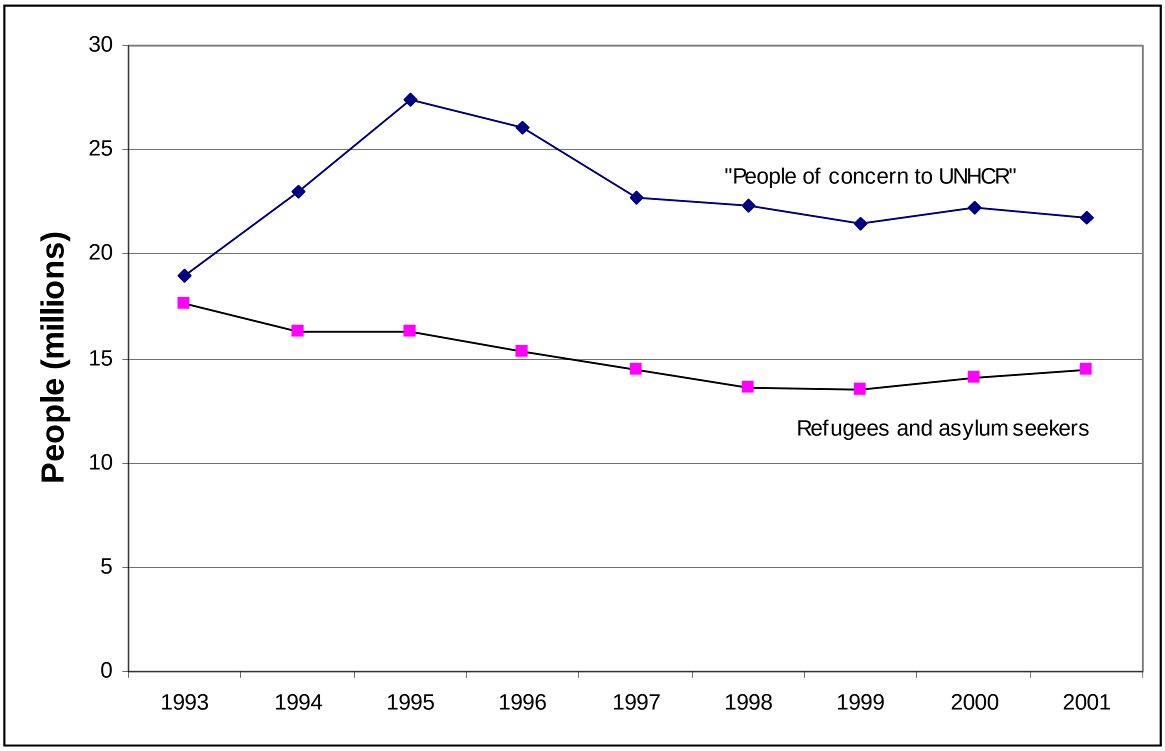
[1] Tessitore and Woolfson refer to the period 1970-1995.

War of any kind is devastating; at best it arrests economic development for a generation, at worst its effects linger for half a century. Of the countries hit by war since 1970 only one (Ethiopia) returned to its pre-war level of per capita income within ten years of the end of hostilities. In a recent report the World Bank (April 1997, p.iii) noted that "fifteen of the world's twenty poorest countries have experienced major conflict during the past decade." The same report estimated that more that 50 countries were either currently engaged in civil or cross-border conflict, or had been so in the recent past.

In short, there is clearly a problem that needs to be addressed.

Figure 2.2 Refugees and Asylum Seekers, 1993-2001

(in millions)



Note: Data as of January 1 of each year. "People of concern to UNHCR" include refugees, asylum seekers, and internally displaced persons. Figures here do not include stateless persons, estimated to number 8.9 million as of January 1, 2001.

Sources: U.S. Committee for Refugees (2001), p.4. UNHCR (2001), p.4.

3 Generalizations About Recent Wars

Our main interest is in countries where war exacted a heavy toll. So we have extracted a subset of the countries listed in Table 2.1, to include only those countries where at least 0.5% of the population was killed in conflict since 1970. Frances Stewart (1993, p.364) used a similar 0.5% threshold in her recent study of the economic costs of war.

Most of the wars since 1970 have been civil wars, although there have been a few important exceptions, most notably the Iran-Iraq war and the Gulf War. Even civil wars differ greatly in nature, and in Table 3.1 we have arranged war-torn countries according to a number of different dimensions. This permits us to hazard several generalizations:

a. *Most of the wars were long and drawn out, without a very clear beginning, middle or even end* (see too Collier 1994 p.1). With the exception of East Timor, there have been no short civil wars in the past generation, where short is taken to mean five years or less. Even when a civil war ends, the underlying divisions typically persist, so that post-war governments often have difficulty establishing their authority.

   The case of Uganda serves to illustrate the point. Idi Amin came to power in January 1971 in a coup d'état. He was ousted when Tanzanian troops intervened in April 1979. Milton Obote was installed in December 1980, but this marked the beginning of an even more savage period of violence, which only ended when Yoweri Museveni took over in January 1986 and consolidated his hold over the country during the ensuing months. There are still (2001) pockets of resistance to the regime in the north of the country.

b. *Looking at the war-torn economies five years before civil war began, one would not have noticed unduly great political instability.* This makes it difficult to predict where the world's next civil wars will break out; indeed the considerable efforts by academics and others to predict where war will break out next have been largely futile (see Marshall (1997) for a review), which makes it hard to head off war before it breaks out.

c. *In more than half of the cases covered in Table 3.1 the pre-war government suppressed the domestic opposition.* This is not a feature that is unique to war-torn economies, but does suggest a hardening of differences within the countries concerned, which may help precipitate the outbreak of overt conflict; this may also provide an early warning signal of impending conflict.

Table 3.1 Typology/Dimensions of Significant Wars Since 1970

	Yes	No
Was the conflict short and intense?	**Rwanda,** Bosnia, Croatia, Tajikistan, Bangladesh, *Gulf War*	**Angola, Burundi, DR Congo, Ethiopia/Eritrea, Liberia, Mozambique, Sierra Leone, Somalia, Sudan, Uganda,** Lebanon, Afghanistan, Cambodia, Laos, *Iran Iraq,* El Salvador, Guatemala, Nicaragua
Was there a pre-war tradition of domestic political instability?	**DR Congo**, Afghanistan, Cambodia	**Angola, Burundi, Ethiopia, Liberia, Mozambique, Rwanda, Sierra Leone, Somalia, Sudan, Uganda,** Bosnia, Croatia, Tajikistan, Lebanon, Bangladesh, *Iran, Iraq, Gulf War,* Laos, El Salvador, Guatemala, Nicaragua.
Prior to the war did the government suppress the domestic opposition?	**Ethiopia/Eritrea, (Liberia?), Mozambique, (Rwanda?), Sierra Leone, Somalia, Sudan, Uganda,** Tajikistan, Afghanistan, Cambodia, *Iran, Iraq,* Laos, Guatemala, Nicaragua	**Angola, (Burundi?), DR Congo,** Bosnia, Croatia, Lebanon, Bangladesh, *Gulf War (Kuwait),* Laos, (El Salvador?)
Did the war have a strong ethnic or religious dimension?	**Angola, Burundi, Ethiopia/Eritrea, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, (Uganda?),** Bosnia, (Tajikistan?), Croatia, Lebanon, (Afghanistan?)	**Mozambique,** Bangladesh, Cambodia, *Iran, Iraq, Gulf War,* Laos El Salvador, Guatemala, Nicaragua
During the war, did the government disintegrate?	**DRCongo, Liberia, Sierra Leone, Somalia, Uganda,** Bosnia, Croatia, (Tajikistan?), Lebanon, Cambodia, (Nicaragua)	**Angola, Burundi, Ethiopia/Eritrea, Mozambique, (Rwanda?), Sudan,** (Afghanistan?), Bangladesh, *Iran, Iraq, Gulf War (Kuwait),* Laos, El Salvador, Guatemala
Did interference by outside countries prolong the war?	**Angola, DR Congo, Mozambique**, Bosnia, Croatia, Lebanon, Afghanistan, Cambodia, Laos, El Salvador, Nicaragua	**Burundi, Ethiopia/Eritrea, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, Uganda,** *Iran, Iraq,* Tajikistan, Bangladesh, Guatemala
Is the war part of an immediate post-independence struggle?	**Angola, Mozambique**, Bosnia, Croatia, Tajikistan	**Burundi, DR Congo, Ethiopia/Eritrea, Liberia, Rwanda, Sierra Leone, Sudan, Uganda**, Lebanon, Afghanistan, Bangladesh, Cambodia, *Iran, Iraq, Gulf War,* Laos, El Salvador, Guatemala, Nicaragua

Notes: **Bold** face = African country. *Italics* = not a civil war.

d. *Almost all of the civil wars in Africa have a strong ethnic dimension, while most of the civil wars outside Africa do not.* On the other hand religious and cultural divisions played a role in about half of the non-African wars. The most plausible explanation is that warring factions emphasize ethnic and other divisions when then can, in their efforts to rally support.

e. *In half of the civil wars in question the government broke down almost completely,* and this is particularly true of the most severe wars. But in a number of cases (e.g. Ethiopia, El Salvador, Iran and Iraq) an adequately functioning government retained control through most of the war period.

f. *About half of the serious civil wars since 1970 were exacerbated by the significant involvement of outside powers*, typically but not always the United States and the Soviet Union. With the ending of the cold war, outside involvement is more likely to come from smaller regional powers (e.g. Iran, Israel and Syria in Lebanon, South Africa in Mozambique, Vietnam in Cambodia, and Angola, Namibia, Rwanda, Uganda and Zimbabwe in the Democratic Republic of the Congo (DR Congo)).

3.1 Implications

This diversity of experience makes it hard to generalize about how to prevent or end civil wars. Nonetheless, it is possible to draw a number of useful lessons.

The first is that the governments of war-torn economies typically lack clear authority; good examples of this are the current regime in Bosnia, or the Chamorro government in Nicaragua (1990-96). It follows that post-war governments will need to delegate many of the functions that stronger governments could shoulder. Post-war governments must recognize their limitations and restrict their attention to essentials – *they must rely more on market mechanisms, not less.* Donors need to recognize this as they design their assistance programs.

There may be another implication. There are no cases of countries that have achieved significant economic growth during wartime. Thus, war needs to end in order to make way for economic development. For instance, the Ethiopian problem was not solved until Eritrea was allowed to secede.

If this general observation is correct, then a priority of aid and diplomacy should be to create a clear political resolution, with a government that has legitimacy and is in control. In some cases this is achieved through elections (e.g. Cambodia, Nicaragua), and in a few cases it comes about because one side of the war wins decisively (e.g. Uganda). The point is that it is necessary to have a government with enough time and authority to be able to devote attention to economic and social development, without being preoccupied with winning a war. Jean-Paul Azam (1994) stresses that it is also important that all major players have a stake in the post-war regime. There is more than one way to achieve this. In Uganda, President Museveni has made a point of bringing a wide variety of viewpoints into his cabinets; in El Salvador the Chapultepec peace accords gave a political role to the ex-guerillas.

Where an inclusive government, or an evident winner, is not on the horizon, development aid may be largely futile. Thus it would have been premature to devote significant aid (other than essential humanitarian aid) to the DR Congo under Laurent Kabila (President, 1996-2000), because his government was neither adequately inclusive nor sufficiently in control. Similarly, the current regime in Liberia is probably too divisive (and venal) to put aid to good use for the development of the country. Of course aid itself can help bolster a government; without considerable outside support, the fragile government of Afghanistan (as of early 2002) would quickly collapse.

It is also clear that the reconstruction of war-torn economies will not generally lead to sustainable development until the meddling by outside powers is ended, a process that calls for considerable diplomatic efforts by the international community. Cambodia was able to recover more quickly once Vietnam pulled out; and the adventures of Uganda and Rwanda (among others) in the eastern part of the DR Congo are delaying the time when serious reconstruction can begin. The support provided by outside powers in Bosnia and Afghanistan may lead to a period of relative calm, but investors will not seriously consider these countries until they have shown that they have developed viable political systems that are truly their own.

4 The Special Characteristics of War-Torn Economies

War-torn economies share many common traits that set them apart from more peaceful countries, or even from countries that have been hit by natural disasters.[2] An understanding of these characteristics is required before one can make any recommendations about the feasible and appropriate scope and sequence of reform. The generalizations discussed below are tested by referring to the experience of five focus countries: Nicaragua, Uganda, East Timor, Bosnia and Cambodia. Table 4.1 indicates whether the features are found in the focus countries, and Table 4.2 provides some numbers to support the conclusions.

The negatives dominate. Even when the fighting stops, war-torn economies typically face a formidable array of handicaps: low incomes that may still be falling, large numbers of refugees, a lack of skilled personnel because of emigration, some continuing civil disorder, run-down infrastructure, high inflation, an overvalued exchange rate, a weak banking system, a distorted tax structure, high foreign debt, small industrial and service sectors, worsening social indicators in health and education, low investment, an erosion of property rights and of trust, and very poor information. We now consider these in more detail.

4.1 GDP Falls.

The evidence shows that economic output falls with the onset of war, and sustained economic growth is impossible as long as the war continues. The explanation is straightforward. For output to expand, an economy needs more

[2] In the words of a recent World Bank report (2000), "a civil war cannot be compared to an earthquake" (p.31).

capital, labor, and human capital. But in wartime, productive investment shrivels up, particularly private investment. Savings, when they do occur, are typically channeled into dollars or gold, which are not directly productive. The infrastructure is typically neglected and so deteriorates, and may also be damaged as a direct result of the war itself. Trading and transport links become uncertain and expensive, curbing trade; public resources are diverted into the war effort; and investment is postponed until peace breaks out. Although population usually continues to grow, educational and skill levels tend to fall during war as school enrollments fall and skilled people leave. Restrictions on trade and on the exchange rate act as further deterrents to enterprise.

Table 4.1 Characteristics of Selected War-Torn Economies During Civil War

	Non war torn LDCs	War-torn ecs.	East Timor		Nicar-agua	Uganda	Bosnia	Camb-odia
			End 1999	Mar. 2001				
Population movement								
Many refugees	—	✓	✓	✓	✓	✓	✓	✓
Many internally displaced	—	✓	✓	—	✓	✓	✓	✓
Brain drain	—	✓	?	?	✓	✓	—	✓
Security								
Large army	—	✓	—	—	✓	—?	✓	✓
Unprofessional police	—	✓	(—)	(—)	✓	✓	✓	✓
External threat	—	—	✓	—	—	—	✓	—
Landmines widespread	—	✓	—	—	✓	✓	✓	✓
Infrastructure								
Infrastructure: damaged	—	(✓)	✓	(✓)	(✓)	✓	✓	✓
Infrastructure: worn out	✓	✓		(✓)	✓	✓	✓	✓
Project appraisal ability	(✓)	—	—	—	—	—	?	—
Macroeconomics								
GDP/capita falls	(—)	✓	✓	—	✓	✓	✓	✓
GDP shrinking	?	✓	✓	—	(✓)	✓	✓	✓
Exports down > 50%	—	(✓)	✓	?	✓	—		✓
High inflation	—	✓	—	—	✓	✓	✓	✓
Dollarization	—	✓	—	✓	✓	✓	✓	✓
State-owned banks dominate	✓	✓	—	—	✓	✓	✓	✓
Fiscal System								
Budget deficit > 5% GDP	(✓)	✓			✓		✓?	✓?
Govt. tax revenue < 15% GDP	—	✓	✓	✓	✓	✓	✓	✓
Foreign debt > 100% GDP			—	—	✓	—		✓
Adequate budget info	✓	—?	—	✓	✓	—	—	—
Adequate NIPA	✓	—?	—	—	✓	—	—	—
ODA > 10% GDP p.a.?	—		✓	✓	—	—		—
Investment < 10% GDP	—	(✓)	?	(—)	—	✓		✓
Social Infrastructure								
Gov. ed. sp. < 2% GDP						✓		✓
Gov. health sp. < 2% GDP	(✓)					✓		✓
Many orphans	—	✓	—	—	✓	✓	✓	✓
Property Rights								
Land reform an issue	—	✓	—	(—)	✓	—	✓	—
Many assets confiscated	—	✓	(✓)	(✓)	✓	✓	✓	✓

Key: ✓ = yes; (✓) = qualified yes; ? = uncertain; — = no; blank = insufficient information.

However, Frances Stewart (1993, p.367), in her study of economic performance during wartime, cautions that while "the negative [macroeconomic] effects expected to be associated with war did occur - notably falling incomes, food production, exports and imports and high budget deficits and high inflation - … they did not invariably occur, and their magnitude varied considerably."

4.2 People Are Displaced.

Wars force people to move, both within the country (internally displaced) and abroad (refugees), although the extent of these movements varies greatly from case to case.

All wars create refugees, often in huge numbers, as Table 4.2 shows. For instance when the war ended in Mozambique there were between five and six million displaced persons, or a third of the population, including 1.5 million refugees outside the country supported by the UNHCR. The war in Liberia, which began in 1989, has left over 100,000 dead, forced 750,000 people into exile (a quarter of the population), and displaced a further million within the country. The recent conflict in the DR Congo has left an estimated 2.5 million dead, led to an exodus of 350,000, and displaced 1.8 million people internally.

With peace there is typically a large and spontaneous return of refugees - illustrated by the massive return of refugees to Rwanda from Tanzania and Zaire in late 1996, and more recently by the return to East Timor of 180,000 refugees – a quarter of the population – from Indonesia in 1999-2000. The UNHCR is effective at mobilizing resources for supporting refugees in camps, but is not particularly successful at organizing their rapid repatriation; an exception may be the early repatriation of 375,000 Cambodian refugees from camps in Thailand after 1989.

There is a real challenge here, in bridging "the gap" between humanitarian assistance and development. The UNHCR, for instance, was established to provide relief for refugees, but in recent years has devoted more attention to equipping returnees for re-insertion into their homeland. Whether this is an appropriate role for the UNHCR, and how one makes the transition from the immediate humanitarian needs to the longer-term development is very much a matter of debate; more details are given in Box 4.1 where the role of UNHCR is discussed.

Box 4.1 UNHCR and the Gap between Humanitarian Assistance and Long-Term Development

The United Nations High Commissioner for Refugees (UNHCR) was established in 1951, originally to aid refugees in Europe. Its brief was humanitarian, unlike that of the United Nations Development Program (UNDP), which was established in 1966 and charged with fostering economic development. Initially, the UNHCR devoted most of its efforts to supporting camps, providing refugees with basic education and tools, and then withdrawing as the refugees gradually became self-sufficient and integrated into the local host community. By the 1960s there was some discussion of an "integrated zonal development approach", where help would be provided both to refugees and to the local host communities, but the idea did not take root.

In the 1970s the number of refugees grew rapidly, from 2.4 million in 1975 to 4.6 million by 1980. Increasing numbers of refugees languished in "closed camps" where they did not become self-sufficient. In response, the international community developed the "refugee aid and development" strategy, which focused on refugee-populated areas rather than on refugees per se. Despite some individual successes – such as the Income-Generating Project for Afghan Refugees in the early 1980s in Pakistan (host to some 3 million Afghan refugees) – the approach was limited by a lack of funding.

A major change occurred in the 1990s, when it became clear that, unlike in earlier decades, most refugees could reasonably expect to return to their home countries. UNHCR, which had traditionally only provided transportation home and "a cooking pot and a handshake," changed its approach too, putting a new emphasis on projects that would make it easier for families to reintegrate. Spending on "returnee aid and development" activities rose from 2% of its budget prior to 1984 to 14% in the period 1990-97. In words cited by Jeff Crisp (2001, p.6), head of the UNHCR Evaluation and Policy Analysis Unit, "UNHCR ceased to be an organization that was 'reactive', 'exile-oriented' and 'refugee-specific', and became increasingly 'proactive', 'homeland-oriented' and 'holistic' in its orientation." By 1998 UNHCR had broadened its ambitions further, arguing that "the notion of reintegration cannot be restricted to returning refugees" and should also cover "displaced and war-affected populations, demobilized soldiers and the victims of ethnic cleansing" as well as the communities into which they need to reintegrate. UNHCR argued that "a smooth interface must be established between the short-term assistance provided by UNHCR and the longer-term programmes of the host government and international development agencies." The need for such an interface has long been recognized (see for instance Takahashi 2000).

To operationalize the new approach, UNHCR introduced *quick impact projects (QIPs)*. Faced with 70,000 returnees in Nicaragua, UNHCR supported 250 micro-projects such as rehabilitating schools or repairing bridges. QIPs were small, rapid, non-recurring and developed with community participation, and had become standard UNHCR practice by the mid 1990s. Crisp (2001, pp.12-14) argues that these reintegration programs were widely appreciated by beneficiaries, but were often poorly designed; an evaluation undertaken in 1997 found that the reintegration activities had "generally not proven to be sustainable, not had they acted as an effective bridge to rehabilitation and development." For example, schools had been rebuilt without determining whether there were teachers, and boreholes sunk without ensuring that spare parts were available for the pumps.

In January 1999 the World Bank and UNHCR co-sponsored a round table at the Brookings Institution on the gap between humanitarian aid and development assistance in post-conflict situations. At issue was how to respond more flexibly to funding "mixed humanitarian-developmental interventions." The suggested solution was to create "an action and field-oriented coalition formed on a voluntary basis and aimed at ensuring a more predictable coherent, flexible and timely response of the key players in a given post-conflict situation" (cited by Crisp 2001, p.15). In February 2000, a joint UNHCR, World Bank and UNDP mission visited Sierra Leone "to explore and propose commonly agreed operations responses to strengthen the continuum between security, humanitarian assistance and early reconstruction and development" (cited by Crisp 2001, p.16).

Not all observers believe that this "Brookings approach" is fruitful. Some worry that it might lead donors to disengage from crisis-affected countries, others that it raises expectations that UNHCR, with its limited resources, cannot fulfill. A more serious criticism may be that UNHCR's competence lies in the area of providing protection and emergency assistance to displaced persons, and not in development assistance. And while "relief" is typically provided unconditionally, "development aid" usually carried conditions, which in turn risk politicizing the activities of UNHCR. Meanwhile, substantial numbers of refugees are unlikely ever to return home, and they need help integrating into the host countries rather than being warehoused in camps.

Key Reference: This discussion draws heavily on the analysis of Jeff Crisp (2001).

In serious conflicts a country loses most of its policy makers, intelligentsia and entrepreneurs. This was evident in Nicaragua (where these groups emigrated), Cambodia (where these groups were slaughtered) and in Uganda (where both occurred), but not in El Salvador (where the male members of the business class, but not their families, left; professionals also remained). Recovery is likely to be more rapid if this skilled and experienced group stays, as was the case of post-war Europe or post-war El Salvador. It is difficult and expensive to induce skilled émigrés to return, because they quickly put down roots elsewhere.

Cambodia has pursued an active policy of trying to lure back some of its most skilled expatriates, but has had to pay world-level salaries, which in turn creates resentment among equivalently competent (but poorly paid) local hires. Afghanistan is likely to face a similar problem if it tries to lure back its expatriate professionals. On the other hand Uganda has had a measure of success in attracting some if its Asian entrepreneurs by agreeing to restore their assets, and this has been a key ingredient in the country's recent robust economic recovery.

One of the most valuable roles of an expatriate community may be as a source of remittances; in the case of El Salvador the flow is large - equivalent to 8.6% of GDP annually during 1992-1994 (Wood and Segovia 1995, p.2082) - and tends to flow disproportionately to the poorer parts of the country. The flow of remittances into Uganda is now about $120-130m annually, or about 3% of GDP; this may be compared to coffee exports of $200m and total exports of around $550m (Economic Intelligence Unit, 1995. p.53). So, in the words of one diplomat, "we are not really encouraging them [émigrés] to go back too quickly."

War usually creates overurbanization, as people seek security in the towns and cities; a good case of this is Mozambique, and another example is Ethiopia during 1960-89 (Berhanu and White 2000). A partial exception is Uganda, where much of the fighting was over the control of Kampala. In some respects the war-time urbanization is surprising, because food surpluses produced and marketed within the country tend to decline, which would normally prompt people to return to the agricultural areas. What appears to be happening is that food aid and imports are available to feed urban populations, so that paradoxically there is greater food security in the cities.

Migrants to the cities tend to be slow to return to the countryside unless they have some family members who have stayed behind and can provide a support structure for them if they go back. In Mozambique whole areas were depopulated, which made it very difficult for anyone to return.

4.3 Security Improves Slowly.

Most wars since 1970 have been civil wars, and external threats to the post-war regime have generally been unimportant. More difficult has been the challenge of restoring security domestically, often with a rag-tag police force, resentful (and sometimes armed) losers, and the problem of ensuring that former opponents learn to live together in peace.

Paul Collier (1994a) argues that civil wars tend to peter out rather than end abruptly. Thus civil disorder continues, at both a micro-level (individuals are robbed) and a macro-level (groups such as the losers are discriminated against). Small flare-ups are common, and sometimes re-ignite, as has continued to occur in Burundi. In some cases even an ongoing minor war need not derail the drive for economic development (e.g. the Lord's Resistance Army, which continues to operate in Uganda).

It is imperative that internal security be achieved and maintained quickly, both to help sustain economic development, and also because greater personal security is the most evident and immediate benefit of the emergence of peace.

It used to be believed that *demobilization* would create disorder. The fear was that young men, whose only experience in life was fighting, would have difficulty adapting to civilian life, both psychologically and because they lacked the necessary skills for farming or other work. Collier's study of demobilization in Uganda (1994b) shows that this result is not inevitable; demobilization was not associated with an increase in crime there, at least where the demobilized soldiers gained access to land (as most of them did). One might note in passing that demobilization was not undertaken until 1992, or six years after President Museveni came to power, because of the long time needed to establish security within the country. As in Uganda, crime did not rise in Vietnam after 1989, when the country withdrew its army from Cambodia and rapidly demobilized at least half a million soldiers. While the post-war government in El Salvador was able to halve the number of military personnel and to sharply curtail the power of the army, the process of curbing the influence of the military was much slower and more problematic in neighboring Nicaragua.

The lesson is that demobilization can be successful, if done well. The practical steps that are needed for an effective demobilization have been studied in some detail and are well understood (Coletta et al., p.v). Demobilization can also be expensive, as the case in Uganda where the reduction of the armed forces from 80,000 to 43,000 soldiers initially caused military spending to rise, before dropping from 35% to 25% of the national budget. Thus the emergence of a peace dividend for the government is typically delayed. Even when it arrives, the dividend may be modest: military spending in pre-war El Salvador was 0.7% of GDP, had risen to 3.7% of GDP by 1989, and fell back to 2.6% of GDP in 1991 and 1.7% in 1993 (Boyce 1995b, p. 2110). While liberating 2% or 3% of GDP is no small matter, it does not justify Colletta's assertion that "continental demilitarization is a precondition for reviving civil society, reducing poverty, and sustaining development in Africa." Military spending ate up 3.1% of GDP in Africa in 1992, and this proportion has fallen since. While it is common to argue for a rapid reduction in military spending after the war is over (e.g. Boyce 1995b, p.2113), care must be taken not to revert to the military conditions that preceded the civil war. Experience with demobilization varies widely, however, and it is worth remembering that in some countries (for instance Nicaragua, and to some extent Mozambique) much of the demobilization occurred rapidly and spontaneously.

Civil order is easier to re-establish with a professional *police force*, but this is often lacking. The rare attempts by donors to forge a professional force (El Salvador, Haiti) appear to have been fairly successful, but require strong political will and substantial resources in the form of equipment, training, financing and advice over a period of several years.

One threat to personal security is the presence of large numbers of *landmines* and other ordnance, which blow up somebody in the world on average every 20 minutes. These are a feature of almost every conflict, and are a barrier to agricultural recovery in some areas. Demining is expensive and slow, and in some areas may not be worth doing in the foreseeable future; an expert can only de-mine about 30 square feet of land in a day, and it has been estimated that it costs up to $1,000 per landmine deactivated. An estimated 100 million landmines have been laid worldwide (The Economist, December 6, 1997, p.48). Belgium still digs up about 3,000 pieces of ordnance annually, mainly from World War II but also from World War I and occasionally from the Napoleonic wars.

4.4 Infrastructure Is in Poor Repair.

In many cases, the infrastructure has been seriously damaged by war, and this includes roads, rail, ports, airports, electricity, water supply, sewers and phones. Certainly these are tempting targets. The more serious problem is that during war there has typically been a dearth of spending on the creation and (especially) the maintenance of infrastructure, and it is this legacy of neglect that needs to be reversed. This is also a feature of many non war-torn LDCs, where the problem of inadequate spending on recurrent costs has been recognized for at least twenty years.

Donors like to fund infrastructure projects. There is a well worked-out list for Bosnia, for instance (World Bank 1996a, 1996b, 1996c). Most infrastructure projects are large, complex and slow to get off the ground, which makes them poor candidates if one is looking for projects that will help get post-war economies off to a quick start. Infrastructural projects still need to be financed for long-term development, of course, and this is an area where the Japan Bank for International Cooperation excels.

4.5 Macroeconomic Imbalance Is Common.

High *inflation* (of 20% p.a. or more) in wartime is almost a given, although hyperinflation (rates above 100%) is relatively rare, the recent exceptions being Cambodia, Nicaragua and Uganda. The explanation for the rapid inflation is straightforward: during war, governments print money to pay for their expenses, including the swollen armed forces, while simultaneously having difficulty raising tax and other revenue.

As a result of the high inflation, the public reduces its holdings of the local currency and turns to dollars, so most war-torn economies are dollarized (with the curious exception of Ethiopia, where inflation was relatively restrained, mainly because the public held increasingly large amounts of local currency). The low public reliance on local currency limits the government's scope for seigniorage. The demand for local currency is also highly unstable, because the potential for shifting into and out of the local currency is so great. Thus the inflation that does occur is purely monetary, with little or no inertial component. For instance Fischer (1996, p.366) estimates that the lag between issuing money and the resultant inflation is 18-24 months in the United States, but was of the order of 3-4 months in Russia in the mid-1990s. Lags this short are normal when inflation is high; the positive side is that reductions in the money supply very quickly translate into lower inflation.

There is a useful corollary: the cost of reducing inflation is quite low. If the government can lower its unfunded budget deficit by a relatively modest amount - perhaps by one or two percentage points of GDP - then it will not need to have recourse to monetary financing. With little increase in the money supply, prices (in local currency) will quickly cease to rise, and the public will shift back into local currency from dollars, further moderating inflation. A particularly clear example of this process at work is in the case of Vietnam where inflation fell from 487% in 1986 to 35% by 1989 when the government sharply curtailed its spending (Haughton 1997b). Spectacular reductions have occurred elsewhere; for instance inflation in Nicaragua fell from an average annual rate of 3328% during 1987-89 to 17% during 1992-94. In Cambodia inflation (as measured by the GDP deflator) plunged from 114.5% in 1993 to 0.5% in 1994. Most of this fall occurred in the course of just a few months, during the tenure of the provisional government. The ease with which inflation may be lowered helps explain the otherwise surprising fact that most newly-peaceful economies have succeeded in reducing inflation to very modest levels within a few years; further documentation is provided in Table 4.2.

In most war-torn economies the official *exchange rate* is seriously overvalued. This is the result of restrictions on imports and exchange rate controls. Exchange rate distortions create the potential for redistributing resources, and in particular favor those who have access to foreign exchange at the official exchange rate. During wartime, this system is often used to steer resources towards the armed forces.

After the wars the exchange rate needs to be freed up, and the currency made largely or completely convertible. Again surprisingly, this appears to occur fairly quickly in most cases, although more fundamental changes that would lower trade barriers tend to be slower in coming.

Even though the war may have ended, most people will not trust their money to a *bank*. There are understandable reasons for this. The banks, usually state-owned, that have survived the war almost always have large portfolios of non-performing loans and are not solvent; their loan officers are also likely to have limited experience at appraising risk. Private banks may have difficulty getting established, because it takes time to establish trust and prove one's competence. The ability of the central bank, or any other body, to regulate and oversee the banking system atrophies during wartime, if indeed it was there in the first place, yet without prudential oversight it is difficult to know which banks to trust. Informal credit networks, which of necessity are strengthened during times of uncertainty and war, continue to provide larger and surer returns than most bank deposits. Households with surplus funds may be reluctant to convert their assets into local currency, and may have excellent alternative ways to place their money (for instance in real estate, where the price is likely to rise rapidly when peace returns).

Without deposit mobilization, the banking system will continue to play, at most, a marginal role in financing economic recovery. This may not be a serious handicap in poor economies; both Vietnam and China grew rapidly in the early years after economic reforms began, despite weak banking systems. In more sophisticated economies, such as those of Thailand, Indonesia, South Korea or Bosnia, the collapse of the banking system is likely to leave a more serious void and calls for serious and quick attention. This is one of the reasons why United States Agency for International Development (USAID) is providing funds to the banking system in Bosnia, encouraging them to on-lend cheaply to small and medium enterprises. It is also a strategy with high risks, in part because of general economic uncertainty in the region, and in part because banks are likely to be less prudent when the funds available to them are so easy to come by.

4.6 Revenue Mobilization Is Low.

During wartime, governments scramble to increase revenue in order to finance the war effort. This occurs at a time when the tax base shrivels, both because of the slowdown in economic activity, but also because the government is not in control everywhere. The usual response is to raise tax rates, which in turn leads to a narrowing of the tax base as evasion becomes rampant - as has occurred most recently in Mozambique. Squeezed by lower real wages and few resources for upgrading, administrative capacity tends to run down and opens the way for more widespread corruption. Coercive and arbitrary measures - such as army billeting in homes – may further weaken faith in any form of government. These are characteristics of many tax systems in LDCs, but occur with particular force in countries emerging from war.

While post-war use of excises and mining taxes may occasionally boost revenues significantly, it is generally true that without thorough tax reform, revenue mobilization (measured as a proportion of GDP) is unlikely to rise appreciably after the war ends; the only exception to this rule among the countries we studied was Cambodia (see Table 4.2), which emerged from civil war with an exceptionally low level of revenue mobilization. Ensuring adequate revenue mobilization is a "key second generation issue" in Eastern Europe, according to Stanley Fischer (1996, p.366). But it cannot be achieved rapidly, which is why the suggestion by Boyce (1995b, p.2113) that El Salvador raise its tax revenue from 9.3% of GDP in 1993 to 15% by 1998 is unrealistic. The World Bank now recognizes that it pushed Uganda too hard to raise taxes in the immediate post-war period, and as a result weakened the credibility of the revenue board (Kreimer et al. 2000b).

Modest revenues and a high demand for government spending tends to create high budget deficits. In some cases a foreign government provided sufficient resources to prevent a run-up in national debt, but these are the exceptions. Most newly peaceful countries have a large foreign, and sometimes a large domestic, debt that creates a potential drag on recovery; Table 4.2 gives some additional information on this.

4.7 Economic Structure Changes.

War alters the structure of economic activity, typically shrinking the industrial and construction sectors while hardly affecting subsistence agriculture. More generally, war hurts those sectors where transactions costs are high, or that are asset-intensive and so particularly vulnerable (Collier 1994a).

The disruption of trading links also leads to a relatively large drop in cash crops, and potentially to food shortages. It is reflected in high price differentials across space (high transport costs) and time (risky storage).

A reasonable implication is that with peace, the transaction- and asset-intensive sectors should be among the first to rebound, as increased security lowers transactions costs and newly-viable infrastructure reduces transport costs. Nonetheless the evidence suggests that post-war improvements come slowly, perhaps because of the difficulty involved in rebuilding other elements of the system of transport and distribution, including fleets of vehicles, trading centers, and working capital to finance the purchase of crops. In his study of agricultural markets in Mozambique, Kyle (1991) found that farmers respond vigorously to prices, but that physical and institutional constraints limited the development of a national market for agricultural products, thereby restraining the recovery of the agricultural sector.

Paul Collier argues that the lower economic output associated with a war-torn economy requires a smaller stock of capital. The reduction of the capital stock is mainly achieved by allowing it to run down (i.e. to depreciate). After a short war, the capital stock may not have shrunk enough, in which case the demand for investment will remain low for several more years until the capital stock is sufficiently depleted. This is an important point, because is raises the possibility that the private sector may not want to invest heavily in the immediate post-war period, even if peace has been definitively established.

4.8 Social Services Break Down.

The experience of war-torn economies shows that the key social indicators worsen during the conflict, as life expectancy falls, infant mortality rates rise, medical services weaken, and school enrollment rates decrease. Food entitlements fall for most people, and malnutrition becomes more widespread. This sets war-torn economies apart from other LDCs, even the poorest LDCs, where social indicators have generally continued to improve even when GDP per capita has stagnated. The lost lives, increased sickness, and lessened access to education count among the largest human costs of war.

The increase in mortality and morbidity has a number of causes. Governments engaging in a war tend to have less time and resources for public health measures such as anti-malarial spraying and vaccinations. Migration helps spread disease, as people flee the fighting and congregate in camps or at the edge of the towns and cities. The war may destroy houses and water supply systems. Health care personnel, particularly physicians, are likely to emigrate, and an already underfunded system of clinics and hospitals is likely to become even less effective. The most striking demographic effect of war may be that it leaves a disproportionate number of widows and orphans, who in turn may have limited resources for survival.

The drop is food entitlements for most people is partly a consequence of household disintegration, with able-bodied males conscripted for fighting (Stewart 1993). But it may also occur if crops are routinely raided or destroyed, and when the system of delivering seeds and fertilizers weakens and so jeopardizes food production. The educational system is typically disrupted. Teachers flee the countryside, being poorly paid or not paid at all. As a result illiteracy rises, particularly in the rural areas.

4.9 Institutions are Seriously Weakened.

In war-time, many of the institutions that are required for the proper functioning of the economy are weakened, through neglect, underfunding, and as a direct result of conflict. . The seriousness of this is not always obvious at first sight for, in the words of Robert Burke of USAID, "you look at the bombed-out buildings, but not at the bombed-out institutions." Some of the weaknesses have been noted above, and include:

- An inexperienced civil service, with a severe lack of skilled local personnel.
- A tax system that collects a small share of GDP for the government.
- An educational system that has insufficient trained personnel, materials and schools.
- A banking system that barely mobilizes deposits.
- A lack of capacity to oversee the banking and financial system.
- A distrust of government and disdain for the rules and laws provides an environment where corruption thrives. There is frequently a diminution of trust ("social infrastructure"), certainly between the opposing camps. On the other hand the declining effectiveness of the central government during wartime may force local communities to develop coping mechanisms, including in some cases a greater reliance on interpersonal trust in the absence of a viable legal system. Commentators on Uganda have argued that the period of war led to the emergence of widespread corruption, and an associated erosion in the work ethic (because the path to riches was not necessarily through effort).
- A breakdown of agricultural extension, research and development.
- A failure of some markets to thrive, even in basic commodities, because of the high risks involved (see Dercon 1995 for an illustration in the context of Ethiopia).
- A police force that is inexperienced and overstretched.
- A weak statistical service, since this is not seen as a priority and data are hard to collect. Very basic information may be lacking, such as data on the number of government employees, or the nature and extent of the foreign debt. The World Bank was hampered initially in Cambodia for lack of

information, and made data gathering an early priority.

- Property rights tend to be eroded by the insecurity of conflict, and by the appropriation of assets by soldiers or by authorities trying to mobilize resources to pursue the war effort. Secure property rights need to be established quickly. This occurred in El Salvador, where the disruption to ownership had anyway been minor. Nicaragua presents a contrasting case; it has been argued that in 1990 it needed to deal with land and property rights immediately, and that dithering prolonged the period of post-war uncertainty and deterred investment. The nub of the debate is whether the new Chamorro government had enough power to take the necessary steps; if it did not, this suggests a role for donors in bringing outside pressure to bear for change. In East Timor the post-war administration has faced three pressing land-related problems: how to provide housing for returnees, how to allocate public and abandoned property, and how to restart the process of land administration (Fitzpatrick 2002). The problems are complicated by the fact that four different systems of law potentially apply to land rights in the country.

Donors often devote considerable resources to rebuilding, or creating, viable institutions. For instance, in East Timor the World Bank has set out to "prioritize institution building early" (World Bank 2000, p.4); although this effort has met with considerable success, the sustainability of many of the country's institutions is very much in doubt; once donor funding shrinks, and seasoned expatriate administrators leave, the shortage of local experience, and resources to support and pay skilled local personnel, will become more evident.

4.10 Some Antidotes

The woes facing war-torn economies may seem depressing, but these countries also have some important assets.

- First, donors are typically interested in supporting rehabilitation and reconstruction, even if most of them hesitate to get involved until it is clear that the conflict is indeed over. For instance, Bangladesh received more external assistance during 1972-74, after the war in which it broke away from West Pakistan, than during the entire previous 24 years as East Pakistan (Boyce 1995a, p.2076). The World Bank was even at the table during the negotiations over the future of Bosnia and Herzegovina that led to the Dayton Agreement in 1995, and played an important role in helping ensure the economic viability of the new state.
- Second, émigrés will have amassed wealth and skills overseas, and will

begin to send back remittances, to invest, and even to return home.

- Third, there is typically a group of war-time entrepreneurs who have accumulated liquid assets and who have the ability to operate even in very difficult circumstances; under the right conditions they could be persuaded to use their talents and money productively in peacetime too.
- Fourth, resistance to reform is typically low, because there are few entrenched interests. In the words of one commentator on Cambodia, "the extreme void ... in a way makes [institution building] easier" (World Bank commentator, 1996). The potential for a new start, to put institutional development on fast forward, may be enough to vault some war-torn economies ahead of many countries that remain entrenched in old ways of doing things.

Given the pervasive problems facing war-torn economies, the key challenge may be to determine where to start. In addressing this we first review the literature, suggest an appropriate sequencing of measures, and provide some examples of successful and unsuccessful interventions in war-torn economies.

Table 4.2 Economic Change During the Move from War to Peace

	East Timor	Nicaragua	Uganda	Mozambique	Cambodia
Time period					
Pre-peace years	1999	1987-89	1986-87	1990-92	1991
Post-peace years	2000	1992-94	1993-94	1994	1994
Population movement					
Refugees, end of war	250,000	23,000	15,000	325,000	30,000
Internally displaced	250,000	Few	Few	500,000	113,000
Skilled labor	Left	Left	Killed/left	Few, stayed	Killed/left
Population growth rate (%)					
Pre-peace	2.4	2.6	2.5	1.9	2.8
Post-peace		2.8	2.8	2.6	3.0
Population, most recent (m)	0.8**	4.9	21.5	17.3	11.8
Security					
Demobilization	Minor issue	Rapid	Effective	Rapid	Slow
Professional police?	Few				
External threat?	Some	No	No	No	No
Internal threat?	Little	Some	Little	No	Yes
Landmines	No	120,000			Many
Macroeconomics					
GDP/capita, WB Atlas 1999, $US	330 (2000)	430	320	230	280
Real GDP growth p.a.					
Pre-peace	-38	-4.5		1.7	
Post-peace	15	0.7	5.5	5.0	5.7
Inflation (GDP deflator), % p.a.					
Pre-peace		3,328	256	49	152
Post-peace		17	7	51	0
M2/GDP					
Pre-peace	30	54	6	37	6
Post-peace		23	9		4
Cash/M2					
Pre-peace	20	35	54	27	
Post-peace		23	34		
Forn. currency deposits/GDP					
Pre-peace		1.0	0.2	5.8	0.0
Post-peace		8.8	0.9		4.8

	East Timor	Nicaragua	Uganda	Mozambique	Cambodia
Fiscal system					
Tax revenue/GDP (%)					
Pre-peace	7	22	8	19	2
Post-peace	8	22	8	16	6
Govt. investment/GDP (%)					
Pre-peace	26		7	23	0
Post-peace	39	22	11	24	7
Budget deficit/GDP (%)					
Pre-peace	32	13	4	-4	-2
Post-peace	46		5		-4
International debt/GDP (%)					
Pre-peace		953	36	191	
Post-peace	0	281	54	214	77
Economic Structure					
Exports/GDP (%)					
Pre-peace	20	16	8	8	
Post-peace	10	12	10	12	31
Manufacturing/GDP (%)					
Pre-peace		28	3	24	7
Post-peace		19	4	21	7
Investment/GDP					
Pre-peace	28	23	9	49	8
Post-peace	38	18	14	60	16
Domestic savings/GDP					
Pre-peace	7	-2	-4	-2	2
Post-peace	-14	-8	-4	5	8
Social Infrastructure					
Govt. health expend./GDP (%)					
Pre-peace			0.3	1.8	0.2
Post-peace	4.0			1.4	0.7
Infant mortality rate (per thousand)					
Pre-peace	78	62	120	173	181
Post-peace		51	114	146	110
Govt. educ.. expend./GDP (%)					
Pre-peace			1.3	3.8	1.1
Post-peace	7.8		1.9	2.9	1.1
Primary gross enrollment rate					
Pre-peace	76*	98	73	62	42
Post-peace		102	71	71	53
Total fertility rate					
Pre-peace	4.4	5.6	7.0	6.3	
Post-peace		5.0	7.3	5.6	4.5
Role of Donors					
ODA/GDP (%)					
Pre-peace	21***	12		86	0
Post-peace	63	27	17	80	12

Notes. Figures are for the period indicated in the top rows of the table, or the closest comparable time period for which data were available. The numbers should be considered to be indicative rather than definitive.

* Age specific enrollment rate, ages 7-12. ** Not including about 100,000 refugees in camps in West Timor. *** Subsidies from Indonesia.

Sources:World Bank (World Development Indicators, various issues; information provided at www.worldbank.org). World Bank, World Financial Indicators, CD-ROM, 2001. International Monetary Fund sources (especially International Financial Statistics, and country reports).

5 What is Needed in Post-War Reconstruction?

Given that a country has gone through war, what needs to be done, and in what order? Despite a wide degree of consensus, there are some substantial disagreements among researchers and practitioners, as well as the problem of what order to follow when rebuilding a war-torn economy.

Traditionally the generosity of government and other donors has largely been directed into four areas:

- political reconstruction such as moving to elections,
- support for security such as retraining the police force,
- humanitarian relief, and the
- reconstruction of physical infrastructure.

Implicit in these priorities is the idea that "peacebuilding activities are a critical precondition for development in post-conflict environments" so "a return to traditional development activities in the near term in post-conflict environments is neither possible nor desirable" (Ball 1996 p.104). This traditional view is widespread. Summarizing the dominant sentiment at an international colloquium on *Post-Conflict Reconstruction Strategies,* which brought together representatives of almost all the main United Nations agencies and units in June 1995, former UN Under-Secretary-General Margaret Anstee (1995, p.4) wrote that "once peace has been restored to a war-torn society ... the overriding goal of the international community should be to assist in national efforts to ensure that conflict and chaos will not recur. This goal must be met over and above needs for relief, rehabilitation and resumption of development."

We take a different view, which is based on the idea *that economic development is complementary to the political and security elements of peacebuilding*, and so measures to promote economic development must begin as soon as there is even a prospect of peace. As UNDP Administrator James Speth (1996, p.9) puts it, "insecurity can frustrate development, and development is necessary to achieve and sustain security." Or in the words of Anthony Lake (1990, p.19) "economists, diplomats, and political leaders must think in each other's terms ... - as the diplomats fashion the political arrangements that could end the fighting, and as the economists plan the first stages of economic recovery." Katherine Marshall (1997, p.2) also sees a tension between "competing frames of reference: diplomacy or development" and argues that in practice the political and socioeconomic solutions "are so intertwined that the classic 'phased' approach, peace first, economics second, would at best leave an impossible legacy for those who inherited the peace" (p.3). The Japanese Ministry of Foreign Affairs also supports a “comprehensive approach” that includes “policies and measures in such fields as politics, security, the economy, society and development” (http://www.mofa.go.jp/policy/un/pamph2000/role.html, October 2001).

Donor money and advice is at the heart of facilitating rapid post-war recovery. In *After the Wars* (Lake 1990), a series of authors were asked to reflect on the problems of immediate post-war reconstruction in Afghanistan, Indochina, Central America, Southern Africa and the Horn of Africa. Lake summarizes the recommendations, which have almost become the conventional wisdom on post-war recovery, as follows:

a. Donors need to enhance the absorptive capacity of war-torn economies, by training personnel whose managerial and technical skills will be needed (pp.17-18). An effort should be made to encourage skilled émigrés to return, and to dissuade talent from leaving. Meanwhile transportation systems need to be made functional as early as possible.
b. Refugees and the internally displaced need to be resettled (p.18).
c. Rural reconstruction is needed, with attention to mine clearance, restoring rural public health, and agricultural development including land reform (pp. 18-19).
d. Donors need to provide plenty of aid, including debt relief (pp. 22-23).
e. An International Fund for Reconstruction should be established, to provide rapid and flexible funding for training and other projects (pp. 23-25).
f. Donors should not shy away from setting performance criteria as conditions for loans (pp. 25-26), including those applied to G-24 assistance in Eastern Europe which cover "adherence to the rule of law; respect for human rights; introduction of multi-party systems; the holding of free and fair elections; and the development of market-oriented economies" (p.26).
g. Donors should be pragmatic (p.12).

Conspicuously absent is any mention of macroeconomic issues or institution building. Some of these gaps are filled by in interesting essay by Krishna Kumar (1996). His first concern is with *political rehabilitation* - restoring a capacity for governance, supporting elections, monitoring and promoting human rights, demobilizing and reintegrating soldiers, and reforming the security sector. He then discusses *social rehabilitation*, which includes the repatriation and resettlement of internal and external refugees, reviving and reforming education and health, assisting war-stricken children, and assisting women who have been victims of war.

When he turns to *economic rehabilitation* he stresses the need to remove landmines, to revive agriculture, to restore the physical infrastructure, and to institute macroeconomic policy reforms, asserting that "introducing macroeconomic stability remains perhaps the most important element of any rehabilitation endeavor." (p.26). His view is that the international community "has emphasized a set of interrelated reforms," which typically begin with economic stabilization, currency devaluation, the liberalization of controls and regulations on the economy, and the privatization of state-owned enterprises.

He then argues that while changes such as these "are necessary for sustainable economic growth, many might not be optimal solutions in the short run," and he expresses concern about the social costs of reduced government spending, the unemployment resulting from privatization, and the balance-of-payments effects of liberalized trade.

The case for a go-slow approach, particularly on macroeconomic fundamentals, is not compelling, although it must be recognized that some issues (land reform, large-scale privatization) cannot be done hastily. The immediate post-war years provide a good opportunity for radical policy changes: few benefited from the wartime regime and so there are few potential losers to block rapid change; little investment has been locked in to unprofitable or protected activities; and in many cases the war "breaks up the domestic coalitions which normally block policy change" so "the period of the transition to peace is a particularly suitable time for radical policy reform" (Collier and Pradhan in Azam et al. (1994), p.133). Furthermore speedy reform, "far from increasing uncertainty, ... will reduce it" (p.133). It is also easier to count on donor support during a shortened transition period, before key donor personnel get rotated elsewhere. For a recent example, when some USAID personnel were transferred out of Nicaragua the system of tracking the credits of the state-owned banks fell apart, as did some donor support for these banks.

It follows that as soon as there is even a *prospect* of peace, substantial attention must be given to putting in place the elements required for rapid and sustained economic development. An interesting case where this occurred is in El Salvador. In 1989, even before an end of the civil war was in sight, the government of newly-elected President Alfredo Cristiani introduced a stabilization and adjustment program. The program successfully lowered inflation and ushered in a period of solid economic growth of about 5% annually, which in turn helped secure continued peace (Wood and Segovia 1995, p.2080). In another striking example, the World Bank began a dialog with the Bosnian authorities in January 1995, ten months before the ceasefire; having built working relationships with local leaders, and learned about the needs of the economy, the World Bank was able to move swiftly once the peace agreements had been signed (Kreimer et al. 2000a).

Box 5.1 East Timor

East Timor qualifies as a war-torn economy, on the basis of the upheavals of 1999, when 250,000 people (out of a total population of 800,000) fled the country and 1,500 were killed. It is useful to compare the case of East Timor with that of other war-torn economies. And it is also helpful to draw out the policy implications, if only as an example of how one might think about the first decisions that need to be made in post-conflict societies.

In war-torn economies: *GDP falls.*

In East Timor: GDP fell sharply in 1999, to a very low $330 per capita in 2000. The recent rebound has been rapid, driven largely by spending by UN personnel as well as substantial agricultural recovery.

Policy: Now the country faces second generation issues, which will take at least a further 2-5 years. The level of economic literacy, vision and sophistication of the first post-war government is at the heart of whether post-war reconstruction will succeed. The historical record is not encouraging: With the exception of Ethiopia, no country hit by a civil war since 1970 has achieved its pre-war peak level of GDP/capita within a decade after the emergence of peace.

In war-torn economies: *People are displaced, both internally and abroad.*

In East Timor: Most people returned home quickly once the conflict ended in late 1999, but about 50,000 were still in camps in West Timor at the end of 2001. There is also a significant émigré population, mainly in Indonesia but also in Australia and Portugal, which may number as much as 80,000.

Policy: Most observers agree that refugees and the internally displaced need to be resettled as soon as possible. Continued efforts are still needed to help those who are still in West Timor to return.

It is tempting, but not usually very productive, to make special efforts to attract back émigrés, who often have skills that are otherwise in short supply. Returnees are expensive, and their high salaries create resentment among equivalently qualified local hires. The remittances sent home by émigrés are unquestionably useful. A few will naturally return as entrepreneurs.

In war-torn economies: *Security improves slowly.*

In East Timor: The situation was atypical, because the worst violence ended quickly with the intervention of the Australians, and then the United Nations, in September-October 1999.

Policy: Ensuring internal security is essential for a return to normal economic activity. The challenge is to establish an effective, if necessarily small, armed force. An effective and competent police force may take several years to build, even with donor support, as the case of El Salvador shows.

In war-torn economies: *Infrastructure is in poor repair.*

In East Timor: As of late 1999, this was certainly true of East Timor, but since then a considerable amount of rehabilitation has been undertaken.

Policy: The challenge is no longer one of quick rehabilitation, but rather of endowing the country with a more complete and efficient infrastructure. A coherent program for the long-term investment and maintenance of infrastructure needs to be developed, which requires a capability for appraising infrastructure projects and developing a sensible set of priorities. Although urgent, it is not clear that this capacity has yet been developed within East Timor, or even that it is being nurtured adequately.

In war-torn economies: *Inflation is typically high, the exchange rate overvalued, and the banking system fragile.*

In East Timor: East Timor only partly fits this picture. Inflation is low, driven by changes in the value of the US dollar (the official currency), the rupiah (the most widely-used local currency) and the Australian dollar (commonly used). However East Timor is a high-cost economy. This is a problem of long standing, due largely to resource inflows both during the Indonesian period and under the UN administration.

Policy: It is important to avoid political lending by the banking system, to strengthen oversight of the banks, and to maintain the current liberal trade regime and open currency market. There is strong evidence that "open" economies grow faster than ones that are closed to trade or investment.

In war-torn economies: *Revenue mobilization is low.* Most war-torn countries need to increase revenue mobilization in order to provide adequate basic levels of administration, security, infrastructure, education and health.

In East Timor: East Timor has a serious problem in mobilizing local tax revenue for the government. Under the Indonesian period, the tax burden on East Timor was light, probably no more than 8% of GDP.

Policy: It is difficult to increase revenues rapidly, and undesirable if based on highly-distortionary taxes. Large aid inflows – such as those entering East Timor at present – allow governments to postpone serious action in mobilizing revenues, but the adjustment is necessary when the inflows dry up. Fiscal rectitude will be hard to maintain in FY2002-03.

Possible sources of additional revenue include: excise taxes, especially on petroleum products; charges on foreign fishing boats; a higher sales tax. The specialized job of tax collection is often best done by a quasi-independent revenue board. It is important to establish the principle that users should pay for services; this calls for charging the full price for water and electricity.

In war-torn economies: *Economic structure changes, shrinking industry while hardly affecting subsistence agriculture*

In East Timor: These generalizations are not entirely applicable in the case of East Timor. The short but severe conflict of 1999 hit the services sector hardest, with the withdrawal of most of the Indonesians who had run the provincial administration and filled most of the professional positions. Cereal output fell by about 30%, but has rebounded since. Coffee exports fell from the habitual level of about 8,000 tonnes to an (officially) estimated 2,500 tonnes in 2000.

Policy: There is no reason why one sector of the economy should be favored over another. At some point a clear set of tax rules, a foreign investment code, and laws on contracts and bankruptcy are required, and need to be backed up with an effective judiciary. East Timor could move quickly on all these fronts by adopting and adapting the relevant Indonesian laws. A Foreign Investment Code has been drafted, as have amendments to the Indonesian Law on Companies, but there is much unfinished business, including a commercial legal framework, land and property rights law, a labor code, and mechanisms for the resolution and arbitration of disputes.

The current rules for business registration are very simple, and the challenge will be to retain the clarity and simplicity of these arrangements.

Igniting and maintaining an inflow of foreign investment is not easy and requires constant efforts to promote the country and fine-tune the rules – removing ambiguities in the investment code, allowing foreign firms to borrow locally, permitting profit repatriation, making it possible for expatriates to get work permits, and avoiding corruption and red tape.

In war-torn economies: *Social infrastructure breaks down.*

In East Timor: School enrollment rates, already low at 76% of 7-12 year olds, fell after September 1999, although they are now recovering fast. The number of physicians and dentists fell from 190 in 1999 to about 35 by 2000.

Policy: Public health measures such as anti-malarial spraying and vaccination campaigns are likely to have a very high payoff. East Timor faces a particular challenge in re-establishing a network of primary care units, because many of the skilled personnel have left. Some poor countries, such as Vietnam, have seen private providers fill the gap fairly successfully.

Education is central to maintaining economic growth over the long term. East Timor could build on its experience with community procurement to develop, like El Salvador, community-managed schools. East Timor will need to make a sustained effort over a decade in order to achieve universal primary education - or longer if the government succumbs to the temptation to spend too much on higher education. Universal basic education would also represent an achievement of nationhood.

In war-torn economies: *Institutions are weakened.*

In East Timor: In addition to those mentioned above, significant weaknesses include an inexperienced civil service, with a severe lack of skilled local personnel; uncertainty about property rights; a tradition of petty corruption, which does not appear to have vanished; and a weak statistical service.

Policy: Donors need to enhance the absorptive capacity of war-torn economies, by training personnel whose managerial and technical skills will be needed. With a small, poor and inexperienced civil service, a relatively restrained role for government, coupled with a heavier reliance on the market, is appropriate.

Land ownership remains a thorny issue in East Timor, where at least four sets of potentially conflicting claims (adat, pre-1974, Indonesian period, post 1999). Claims to land are currently being recorded, but substantial negotiation and compromise will be needed in order to clarify and finalize property rights.

Land reform is a slow process that has never been successfully completed in a year or two. Most farmers in East Timor are smallholders, collectively working about 200,000 hectares. The essential issue to be addressed is what approach to take with the estates (mainly in coffee) that cover about 103,000 hectares.

Conclusion

Most of the work of immediate economic rehabilitation has been done. As East Timor becomes independent in 2002 it will inherit an economy that will no longer have much in common with war-torn economies. In contrast to most war-torn economies, donors have moved quickly in East Timor, providing massive support for the security apparatus and for administration, as well as paying for some of the more obvious types of rehabilitation. Again in contrast to experience elsewhere, coordination among donors in East Timor has been close, but now the goal should be to develop the government's own capacity to work with, and coordinate, aid donors, so that the process becomes more genuinely collaborative.

The next phase - the transition from reconstruction to sustainable development - promises to start well and end badly. Donor support is likely to continue at a high level for a further couple of years, and the new government will enjoy a honeymoon period as it hits its stride. With an influx of oil revenues - possibly enough to double GDP almost overnight - the boom will be sustained for a few more years.

This is where the true danger lies. By 2010, when incomes have doubled and the conflict become a memory, what will the sources of further economic growth be? As an oil-rich country, East Timor will be too expensive to be an attractive platform for manufactured exports. Unless the resources are managed with great discipline, the economy will run out of steam, as has happened in almost every other poor country that has stumbled on comparable riches. The most notable counterexample is Botswana - a small, formerly poor, remote country that has parlayed its diamond wealth into a degree of moderate affluence. It is a model worth studying closely, even if it does not qualify as a war-torn economy.

Key Reference: Hal Hill and Joao Saldanha (eds.), *Economic Development of East Timor*, Institute for Southeast Asian Studies Press, Singapore, 2001.

Moreover, humanitarian relief and the reconstruction of physical infrastructure, important as these are, do not constitute a complete program for economic recovery. In Krishna Kumar's words (1996, p.22), "rebuilding *institutional* infrastructure shattered during conflict is as important, if not more important, as physical infrastructure ... this is an area that has largely been overlooked by the international community in the past."

6 Issues Raised by Earlier Writings on Recovery from War

Existing writings on what needs to be done in war-torn economies raise a number of important, and controversial, questions. In what follows we briefly identify some of the most interesting issues that are in contention. In offering our opinions on each issue we do not mean to imply that our answers are the right ones everywhere and at all times, but rather that they are the appropriate starting points for the debate.

Should the government role be large and active (Stewart) or small and selective (Collier)? Our answer is that the role should be small, because post-war governments lack the financial and skill bases for a dominant role in the economy, and so need to concentrate their limited resources on doing well those things that others cannot do successfully.

Should macroeconomic reforms be introduced rapidly (Collier and Pradhan in Azam et al. (1994)) or gently (Kumar), or are they not central to the reconstruction effort (Lake, by omission)? Our answer is that such reforms must be undertaken rapidly, because sustainable growth does not occur in economies that have not been stabilized. The macroeconomic reforms in question here are mainly the “stroke of the pen” measures, such as getting the money supply under control.

Should the exchange rate be deliberately undervalued for a while, to attract back investors (Collier) or moved from an overvalued position only with circumspection (Kumar)? Our answer is neither. Restrictions on trade should be reduced and the exchange rate allowed to find its appropriate level.

Can and should émigrés be encouraged to return at an early date (Lake, Collier)? Our response is that they are a difficult group to lure back, and so should be neither encouraged nor discouraged.

Does land reform need to be an early priority (Lake)? Our belief is that other reforms are typically more pressing, and that good land reform cannot be done quickly.

Is a separate international fund, targeted at reconstructing war-torn economies, needed? Our answer is no. A new bureaucracy is not needed, but existing donor organizations need to build further flexibility into their lending procedures in order to respond rapidly when peace breaks out.

Should the donors attach conditions to the granting of aid? Our response is that initially any conditions should be minimal and credible; later than can be stiffened, but they should remain parsimonious.

Do governments need to signal explicitly their commitment to reform by undertaking difficult reforms early on (Collier and Gunning in Azam et al. (1994))? Our answer is no. If governments make good decisions, they will be seen as credible. If they do not, smoke and mirrors will not help.

Although a discussion of the big issues is helpful, the main problem with the current literature on reconstructing war-torn economies is that it does not give a good sense of what the priorities should be. Everything seems to be urgent, essential, crucial. Yet in practice donors and decision-makers need to know what to do first, which brings us to the issue of how best to sequence reforms.

7 Sequencing

In moving from a period of conflict to sustainable development, most countries pass through a series of phases. The phases of peacemaking and peacekeeping involve bringing the overt conflict to an end and setting up the arrangements for a durable peace. For instance, this happened rapidly in East Timor. The period of serious violence and conflict lasted about a month (September 1999), but with the arrival of Australian-led troops in late September, the country was largely peaceable again by the end of the year.

Then follows a period of *peace building*, in which the initial gains are consolidated, infrastructure and institutions rehabilitated and restored, and the foundations of true (re)construction and recovery laid. Typically this phase lasts a year or two.

The more difficult real challenge is in tackling the second generation issues, which take at least a further 2-5 years, and point the way towards sustainable development. The literature on economic recovery after war does not give a good sense of what the priorities should be, and everything seems to be urgent and essential. In what follows we summarize where the priorities will need to be, following the structure set out in Haughton (1997b), while recognizing that "there is much controversy about the theory, timing, scope, speed and sequencing and reforms" (World Bank 1991, p.145). History shows that almost all post-war governments (not counting interim administrations) have in practice had a window of at least five years in which they remain in power, which is certainly long enough to set the foundations for rapid subsequent growth. The choices made by the first post-war government are at the heart of whether post-war reconstruction will succeed in a timely fashion.

Table 7.1 summarizes the steps that need to be taken early on, alongside those that can wait. For instance, it is urgent to ensure the health of those living in refugee camps; on the other hand, the rehabilitation of a primary health care network takes considerable time, resources and managerial capacity, and may have to wait until the first generation of measures is complete.

What lessons can one draw from the literature on sequencing? Quite simply, move quickly, especially with the stroke-of-the-pen measures which include opening up to trade, getting an appropriate exchange rate, cutting inflation, bringing the budget deficit to a manageable level, and petty privatization. Most other issues simply cannot be resolved so quickly, and will need to wait; they include the privatization of large enterprises, and land reform.

Table 7.1 Key Policy Measures in Speeding the Reconstruction of War-Torn Economies

	Early measures (years 1-2)	Later measures (years 3-5)
Population	Return and settle refugees.	
Security	Demobilize. Professionalize police, army.	Professionalize police, army.
Infrastructure	Open and secure main ports, roads, rail, airports. Develop capacity to appraise & manage projects.	Plan long-term investment and maintenance.
Macroeconomics	Cut inflation below 20%. Restrain lending by state-owned banks. Liberate exchange rate. Establish exchange rate convertibility.	Develop banking rules and oversight capacity.
Fiscal System	Introduce cash budgeting. Set up payments system. Suspend debt servicing. Seek foreign aid to support budget.	Increase revenue mobilization. Develop data collection. Renegotiate debt. Civil service reform. Fiscal decentralization.
Economic Structure	Provide seeds and tools. Food aid, briefly.	Foreign investment law. Investor roadmap. Encourage development of markets.
Social Infrastructure	Maintain health in remaining camps. Support orphans, war cripples.	Restore public health measures in towns. Target primary health care. Build primary education.
Property Rights	Land for ex-combatants.	Land reform. Asset restitution. Privatize small companies.
Role of donors	Budget support. Indiscriminate project aid. Technical training in key areas. Select aid coordinator and establish guidelines. Apply few conditions to aid.	Reduce budget support. More selectivity in project aid. Broader educational support. Institutional coordination within government. Tighter, but still few, conditions attached to aid..

It might be argued that most of the measures here address the symptoms, rather than the root causes, of the conflict, and that if one is to establish a durable peace then it is vital to remove the underlying causes of the war. This is easier said than done, because there is often difficult to identify the root causes of the conflict. Even if the causes are clear – unequal access to land, long-standing ethnic rivalries, ideological zealotry – they are often difficult or impossible to remove. Instead, our underlying assumption is that rapid economic development can ease tensions; it is instructive that the serious inter-ethnic rioting that occurred in Malaysia in 1969 has not been repeated during the subsequent three decades of economic advance, and affluent western Europe has been at peace for over half a century.

8 Successes and Failures in Post-War Reconstruction

Despite the difficult working environment, many of the donor-supported projects in war-torn economies somehow manage to succeed. In this section we illustrate this proposition with a number of examples, both of successes and failures.

8.1 Case 1. Uganda.

After independence in 1963, the Obote government in Uganda gradually became more autocratic and political conflict increased. After the military coup led by Idi Amin in 1971 there was increased violence and severe economic decline. The second Obote administration (1980-85) lacked experience, and peace did not come to most of the country until the National Resistance Movement came to power in 1986. The economic rebound was slow until the government introduced serious economic reforms in 1992.

The World Bank was heavily involved in financing the post-war recovery program in Uganda. An evaluation of its activities in Uganda, published in 2000, praised the World Bank for its work in strengthening the capacity of the Ministry of Finance and Central Bank, for its road rehabilitation projects, and for its successful effort in ending the monopoly of the Coffee Board (Kreimer et al. 2000b). However the World Bank's efforts to improve the health services were not effective, and many of the supplies were sold by medical personnel for personal profit. Nor did the World Bank have much success in reviving the primary education sector; just 37% of the disbursed funds reached the schools, their intended beneficiaries.

Why did the social sector projects fail? The evaluation report blames weak ministries, and argues that it was premature to rely on structures that first needed to be strengthened. It also appears that the World Bank did not build enough consensus around its projects (it mainly talked with the Ministry of Finance); that it attached too many conditions to its loans; that its projects were not flexible enough; and that its time horizon was too short.

The problem of judging when the time is ripe for a project arises with particular force in the case of microcredit. Jacobson (2001) documents a number of cases of successful provision of microcredit in Uganda, but she argues that micro-finance organizations need to "wait until the environment has stabilized before initiating services. Before then, encourage grant and emergency assistance" (p.62). Lenders may need to charge more when extending loans in an uncertain environment, not so much because of lower repayment rates, but because of the greater cost of ensuring that funds are secure from robbery.

8.2 Case 2. East Timor.

After Indonesian troops went on the rampage in East Timor in September 1999, the rapid deployment of Australian soldiers was essential to restore calm. Donors were quick to pledge support, and the United Nations Transitional Administration for East Timor (UNTAET) was quickly put in place as a functioning government. Apart from establishing law and order, there have been successful projects that have re-roofed and rehabilitated schools, restored electric power, and re-opened the main port, airport and key roads.

Despite the clear success of UNTAET, there is a growing sentiment in the country that it is time for a local administration. UNTAET has been criticized for paying inadequate attention to building "local capacity," and for being slow to build a partnership with local officials and the public. Building local capacity is slow and difficult (Smillie 2001), and there may be a tradeoff between getting the job done effectively now (for instance an NGO distributing food aid) without strengthening local capacity, or doing the job more slowly now but giving local partners the ability to do the work themselves in the future.

8.3 Case 3. El Salvador

After more than a decade of conflict, the Chapultepec peace accords were signed in January, 1992 between the government of El Salvador and the Farabundo Marti National Liberation Front (FMNL). Even before the accords had been signed, the World Bank had begun to provide macroeconomic advice to the government, and played an important role in coordinating the efforts of the main donors. The World Bank also found an opportunity to fund community-based schools under the EDUCO program, apparently with considerable success (Eriksson, Kreimer and Arnold, 2000). It also helped fund the land registration office, an important detail in a situation where access to land had been at the heart of the conflict. However a World Bank project to support the agricultural sector, especially extension services, was ineffective due to weak, inefficient and rigid bureaucracies. The overall success of the World Bank's program in El Salvador, as in Bosnia, owed a lot to the very high caliber of the staff assigned to these projects.

El Salvador is one of the few countries where a serious effort has been made to reform the police force. Under the Chapultepec accords, a new depoliticized National Civilian Police (PNC) force was to be established. Just 20% of the officers were to be drawn from each of the FMLN and the old national police force, with the remainder consisting of new recruits. All the commanders were to be civilian recruits. The powers of the armed forces were to be reduced, half of all personnel demobilized, and the old national police force eliminated. Substantial technical assistance was expected to come from the United States and Spain.

PNC force got off to a slow start. The training center was poorly equipped, and put too little emphasis on practical skills. There were initial problems in screening recruits. Government support was lukewarm. And after initial public support, the PNC gradually lost public goodwill, because

reforms in the judicial system were slow, so there was often insufficient jail space, and some judges were biased;

some appointments were politicized;

the United Nations police force, United Nations Observer Mission in El Salvador (ONUSAL), helpful initially, suspended cooperation for a while;

the new police were too quick to use force;

donors provided less aid than expected.

Stanley and Call (1997) argue that better systems of accountability to the public, and popular control, were needed from the start; and that it is easier to teach techniques than to change attitudes. Some of these themes are echoed by O'Neil (1999), who argues that the United Nations took too active a role in "peacebuilding" measures and the implementation of the peace accords, an area where it has insufficient expertise.

8.4 Case 4. Mozambique

The independence of Mozambique in 1975 was followed by a protracted civil war between the former FRELIMO guerillas who constituted the government, and the rival RENAMO. Peace was negotiated in 1991 and 1992, at which point the war ended. One particularly successful activity was the Integrated Health Project in Manica Province, run by the Finnish Aid Agency (FINNIDA). Compared with similar projects in other provinces, the FINNIDA health project expanded coverage and achieved its goals more quickly than elsewhere. The success of the project has been attributed to the fact that it began early (1992); set out a long time frame (15 years), which meant that it was worthwhile for project managers and government officials to develop a good working relationship; was pragmatic; was substantially financed by a "focal" donor (FINNIDA provided 40% of the funding); operated at an appropriate scale; and used private consultants (rather than NGOs) for technical advice (Lubkemann 2001). In passing one might note that UNHCR and UNDP also routinely use private consultants for feasibility studies, although rarely for implementation. With a few exceptions – such as Médecins Sans Frontières – most NGOs have limited technical expertise. This, along with the fact that they have own goals and agendas, often makes NGOs unsatisfactory as subcontractors.

8.5 Case 5. Bosnia

After Croatia and Slovenia made declarations of independence in June 1991, Yugoslavia began to fall apart. A referendum in Bosnia and Herzegovina in February 1992 approved the establishment of an independent state, but was not accepted by the Bosnian Serb leadership. The ensuing three years of war, including widespread "ethnic cleansing", led to 250,000 deaths; a million fled, mainly taking refuge in western Europe. Peace talks in 1995 culminated in the Dayton Accords, signed in December. This led to the creation of a single weak state within which there are two "entities" – the Federation of Bosnia and Herzegovina, and the Republika Srpska. Communication between the two entities is poor and mutual suspicion is strong.

Despite this unpromising environment, the World Bank took a lead role in providing support for economic reconstruction and, ultimately, economic development. World Bank officials began to develop working relations with officials in Bosnia several months before the ceasefire of October 1995, and were ready to move once the political situation stabilized. They put in place sixteen "emergency" projects – they are listed in Table 8.1 – which were largely financed by subsidized loans, though International Development Association (IDA) or a special trust fund. A local project implementation unit was established for each project, and disbursement began rapidly. The lesson here is that loan-based aid can, in some circumstances at least, play an important role even in the early period of post-war reconstruction.

Partly as a result of the projects, GDP rebounded in 1996, rising by 50% over the level of the previous year. An evaluation of the World Bank's efforts in Bosnia praised the timeliness of the interventions, the effectiveness of coordination with other donors, the attention to economic management, and the "balanced inclusion" of social sector projects Kreimer et al. 2000a). However, the World Bank's efforts at demining were of limited effectiveness, with as it underestimated the cost and difficulty involved in this undertaking.

Table 8.1 Emergency Projects Funded by the World Bank in Bosnia, 1996

Emergency projects:	WB, $m	Comments
Recovery	45	Financed "critical" imports; provided credit for enterprises; budgetary support; cash assistance for the poor. Other donors contributed an additional $115 million.
Transport Reconstruction	35	Rehabilitated roads and railroads.
Farm Reconstruction	20	Imported equipment and livestock for farmers.
Water, Sanitation and Solid Waste	20	Restored service in priority areas and helped reconstitute sector institutions.
District Heating Rehabilitation	20	Restored heat supply system in Sarajevo.
Education Reconstruction	10	School rehabilitation; provision of books and materials; training.
War Victims Rehabilitation	10	Facilities, supplies, surgery and prostheses for those with war-related disabilities.
Demobilization and reintegration	7.5	Re-established labor market information systems; training for 32,000 people.
Electric power reconstruction	35.6	Restored electricity service in major cities; supplied fuel. Project received co-financing from several donors, including Japan.
Housing repair	15	Urgent house repairs, and maintenance of some public sector housing; covered 20,000 units.
Landmines clearance	7.5	Designed to set up an institutional structure and carry out urgent mine-clearing.
Public works and employment	10	Financed small, labor-intensive public works over two years.
Transition assistance	90	Quick-disbursing funds for fiscal and balance of payments assistance. Supported banking and enterprise reforms, laying foundation for privatization.
Hospital services	15	Rehabilitated facilities, provided equipment and supplies.
Industry re-start	10	Supported investment guarantee agency, providing political risk guarantees for investors.
Local initiatives	7	Credit to micro- and small enterprises.

Source: Kreimer et al. (2000a), pp.35-38.

8.6 Lessons

A number of simple lessons may be drawn from these examples.

- First, there are many ways in which donors can usefully help with post-war economic recovery.
- Second, the projects that are undertaken in a war-torn economy need to allow for flexibility, because conditions may change rapidly.
- Third, it is vital to have very good personnel to oversee the project.
- Fourth, serious attention must be given to developing local capacity, and working closely with local partners.
- Fifth, donors should recognize that some projects, however worthy on paper, may be premature if the managerial structures are still too weak.
- Sixth, donors have different strengths, and should play to their comparative advantage; for instance, the World Bank may be well-positioned to advise on macroeconomic stability, but less effective in

providing health care or undertaking demining.

- Seventh, private contractors can often provide advice that carries less baggage than that coming from NGOs.
- Eighth, recovery is very slow, and requires long-term commitments by donors.

9 Japan's Role in Post-War Reconstruction

9.1 Overall Aid to War-Torn Economies

Japanese aid to Less Developed countries in general, and War-Torn Economies in particular, takes three forms: bilateral grants, bilateral loans, and grants awarded indirectly via multilateral agencies such as the United National High Commissioner for Refugees or the Asian Development Bank. Table 9.1 provides a breakdown of the amount of aid given in 1999, and is based on information compiled by the Development Assistance Committee of the OECD.

The first point to emphasize is that Japan is a generous aid donor. An estimated 22% of all aid (grants, net loans and contributions to multilateral agencies) worldwide is provided by Japan; this compares to the 13% provided by the United States and 34% that comes from the European Union. Japanese aid relies heavily on loans (a third of all its aid, compared to 13% for other donors) and puts correspondingly less weight on bilateral grants.

Japan directs a relatively modest proportion of its aid to war-torn economies; 11% of its aid goes to these economies, compared with 20% of U.S. aid and 21% of the aid granted by European Union countries. Another way to make the same point is to note that while Japan provides 22% of all aid, it accounts for just 12% of all aid channeled to war-torn economies. This pattern is not surprising, for two reasons. First, Japanese aid is largely directed to the countries of East, Southeast and South Asia – four-fifths of all JBIC loans went to these regions during the period 1971-2001 – but these are also regions that have been comparatively free from conflict. Second, while most bilateral donors give aid in the form of grants, a significant proportion of Japanese aid takes the form of loans; loan aid is inherently less well-suited for war-torn economies than is grant aid.

Table 9.1 Japanese Aid to War-Torn Economies in Comparative Perspective, 1999

($millions)

		Total	*of which:* Grants	Multilateral	Net loans
Japan	War-torn economies	1,563	722	656	185
	Less-Developed Countries	14,616	5,475	4,140	5,001
	WTE/LDC, %	10.7	13.2	15.8	3.7
All Donors	War-torn economies	13,204	9,404	2,107	1,702
	Less-Developed Countries	65,542	42,547	11,529	11,467
	WTE/LDC, %	20.1	22.1	18.3	14.8
Memo: Japan/All Donors	War-torn economies	**11.8**	7.7	31.1	10.9
	Less-Developed Countries	**22.3**	12.9	35.9	43.6

Source: Development Assistance Committee, OECD. Based on Tables A1-A4 in the appendix

Despite the relative lack of emphasis on helping war-torn economies, the absolute value of the aid that Japan provides to these countries is large. It amounted to $1,563 million in 1999, of which $722m consisted of grants, $185m in net loans, and $656m in indirect contributions via multilateral agencies.

A more detailed breakdown of Japan's aid flows to individual war-torn economies is given in Table 8; the separation of these flows into grants, loans, and indirect flows (through contributions to multilateral agencies) is relegated to the Appendix. The most striking pattern to emerge from Table 8 is the relatively low development assistance that Japan provides to the countries of Africa, Europe, and the Former Soviet Union. On the other hand the amounts given or lent to a number of South and Southeast Asian countries are very large.

Table 9.2 Japanese Aid to War-Torn and Developing Economies, 1999

($ millions)

	Japan		US	EU	Germany	France	Italy	U.K.	Canada	Australia	All
	% of total	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Total Aid											
Africa	**4.5**	241	592	1,977	279	179	187	263	98	46	5,382
Europe and FSU	**4.6**	139	482	1,191	287	206	101	85	82	79	3,058
Middle-East & N.Afr	**9.3**	109	114	459	133	154	38	52	32	28	1,174
Asia	**44.9**	873	88	427	107	59	25	49	39	134	1,945
Latin Am. & Carib.	**12.2**	200	372	540	114	38	16	17	29	4	1,645
Total, war-torn ecs.	**11.8**	1,563	1,648	4,595	921	637	367	465	280	291	13,204
All LDCs	**22.3**	14,616	8,249	22,252	4,430	5,126	1,143	2,652	1,493	936	65,542
WTE as % all aid		**10.7**	**20.0**	**20.6**	**20.8**	**12.4**	**32.1**	**17.5**	**18.7**	**31.1**	**20.1**
Memo: Net loans											
Africa		-1	1	23	-5	-1	15	6	7	8	681
Europe and FSU	**0.8**	3	7	30	34	12	11	18	21	24	365
Middle-East & N.Afr	**35.4**	34	3	-44	-2	21	9	18	20	24	96
Asia	**39.7**	95	-21	-8	-1	6	10	12	11	16	240
Latin Am. & Carib	**16.8**	54	-24	5	4	0	-8	4	0	0	320
Total, war-torn ecs.	**10.9**	185	-33	6	29	37	36	58	59	72	1,702
All LDCs	**43.6**	5,001	-790	315	42	148	-100	182	-23	0	11,467
WTE as % loans		**3.7**		**1.9**	**69.9**	**25.3**		**32.1**			**14.8**

Notes: "WTE" = War-Torn Economies. The first column of figures shows Japanese aid (i.e. grants plus imputed multilateral aid plus loans extended less loan repayments) as a percentage of all aid, for each of the war-torn economies shown. The last row of figures shows, for each type of aid, the proportion of aid that flows to war-torn economies.

9.2 The Role of JBIC

Almost half of Japanese bilateral aid to developing countries takes the form of loans, typically offered at concessional interest rates, with grace periods of 10 years and repayment periods of 30 years or more. This loan program comes under the Overseas Economic Cooperation Fund of JBIC.[3] Funding for the program comes from government subscriptions, and by borrowing from domestic sources such as the Post Office Savings Bank. The pattern of JBIC loans is set out in Table 9.3 (with the full details appearing in Appendix Table 5). About half of all loans go to projects in power and transportation, and four-fifths are directed to East, Southeast and South Asia. The share of loans going to Africa – a relatively war-torn continent - fell sharply between the 1970s and the 1990s. In the 1990s, JBIC extended about 100 new loans per year. Individual loans are large, averaging ¥10.5 billion per project in the 1990s.

Table 9.3 JBIC Loans, 1971-2001

	% of projects (by value)		
	1971-1981	1981-1991	1991-2001
Sector			
Agriculture, Forestry and Fisheries	4.1	3.0	4.2
Commodity Loans	19.2	20.4	12.6
Electric Power and Gas	21.6	20.9	22.4
Irrigation and Flood Control	3.9	5.2	7.2
Mining and Manufacturing	14.2	11.2	4.6
Social Services	4.9	7.1	15.8
Telecommunications	5.8	6.9	3.2
Transportation	26.1	24.6	30.0
Other	0.2	0.7	0.0
Region			
Africa	11.2	8.6	4.6
Central Asia and Caucasia	0.0	0.0	2.0
East Asia	11.5	18.3	16.7
Europe	0.2	0.3	0.9
Latin America and the Caribbean	3.4	5.6	9.2
Oceania	0.1	0.6	0.2
South Asia	15.1	20.9	17.6
Southeast Asia	56.2	41.6	43.7
Middle East	2.3	4.1	5.0
Overall (¥ billions)	**2,542**	**6,860**	**10,255**
Overall (%)	**100.0**	**100.0**	**100.0**

Note: 1971-1981 refers to April 1, 1971 – March 31, 1981. 1981-1991 refers to April 1, 1981 – March 31, 1991. 1991-2001 refers to April 1, 1991 – March 31, 2001.

Source: www.jbic.go.jp accessed March 17, 2002.

[3] JBIC also has an International Financial Operations division, which extends loans that help promote Japanese exports and Japanese economic activities overseas.

10 Explaining the Pattern of Japanese Aid to War-Torn Economies

Three important official documents help one to understand the pattern of Japanese aid to war-torn economies. The *Overseas Development Assistance Charter*, approved by the Cabinet in 1992, states that the goals of official ODA shall be

- to seek to alleviate famine and poverty, on humanitarian grounds; and
- to encourage the economic development of Less Developed Countries, as a way to encourage peace and prosperity in an interdependent world.

These goals are to be pursued in a manner consistent with environmental conservation, and should emphasize self-help efforts. The *Charter* notes Japan's historically close links with East Asian countries, and makes Asia a priority region for ODA; in practice about three fifths of Japanese aid goes to East and Southeast Asia. The *Charter* also specifies that aid shall be applied to help provide basic human needs, to develop human resources and infrastructure, to tackle problems related to the environment and population, and to support structural adjustment.

The official policy towards ODA is fleshed out in the *Medium-Term Policy*, approved in 1999 and designed with a five-year time frame in mind. The *Policy* reiterates the main points of the *Charter*, and indicates the need for policy dialogues in the countries aided. It differs from the *Charter* in that it puts greater emphasis on helping the least developed countries and on providing greater "human security" (i.e. protection from disease, drugs, environmental destruction and the like). Both documents note the need for transparency in the operations of ODA and for greater public awareness, in Japan, of the role of ODA.

The *Charter* makes no mention of war-torn economies, which helps explain why Japanese aid has not flowed to such economies in greater amounts. However, the *Medium-Term Policy* does mention the problem; in the subsection on Africa it notes that

> "Japan will provide support for democratization, conflict prevention and *post-conflict reconstruction* in order to provide the foundation for African stability" (section 5.(4); italics added).

And under the subsection on Europe one finds the statement that

> "Japan will provide humanitarian aid to refugees, economic and social infrastructure development for the promotion of restoration and reconstruction in the former-Yugoslav region and neighboring countries" (section 8.(2)).

These cases stand out as exceptions; for the most part war-torn economies do not get special attention in Japanese ODA policy.

The principles guiding JBIC activities are set out in the *Medium-Term Strategy for Overseas Economic Cooperation Operations.* When finalized, this document defines JBIC strategy for the coming three years (April 2002 through March 2005). In line with overall policy, JBIC's overseas economic cooperation loans are intended "to overcome poverty and environmental problems in order to achieve a stable international system and to realize sustainable development in the developing world" (p.1), while supporting "self-help efforts for sustainable growth" (p.2). Its role is "to supplement shortfalls in development financing as well as provide technical and knowledge assistance" (p.2) by providing low-interest loans to projects in developing countries. While the emphasis remains on infrastructural projects, there are a number of subtle changes in emphasis compared to the past. The *Medium-Term Strategy* argues that:

- there should be less funding for infrastructure (e.g. power plants, telecommunications) where private funds are already available;
- there should be more "knowledge assistance," especially on environmental issues (where Japan has extensive experience);
- there should be more support for the poor (p.8), and this will partly take the form of greater support for the agricultural sector; and
- there should be more emphasis on renewable energy generation.

Geographically, the priority regions will remain East, Southeast and South Asia. The *Strategy* makes no significant mention of war-torn economies. The one minor exception is that in Central and Eastern Europe, "for the areas affected by conflicts, JBIC will assist rehabilitation on the basis of a global framework" (p.21).

10.1 Examples of Japanese Support for Post-War Reconstruction

Despite the general rule, which is that Japanese aid is not particularly oriented towards the development of war-torn economies., there are a number of interesting recent examples of interventions in post-conflict societies.

The first example comes from Kosovo. By July 1999, just a month after the peace accords were signed, an estimated 80% of ethnic Albanian refugees had returned home to Kosovo. In many cases they returned to scenes of devastation, in which houses and buildings had been destroyed. A number of Japanese non-governmental organizations (NGOs) were effective at providing refugee relief, including the construction of 500 temporary housing units, the distribution of house repair kits, the rehabilitation of school buildings, and the provision of medical supplies and equipment. Much of the funding for these activities came from the Japanese government's "direct fund," established in 1999.

A more recent example relates to Nigeria, where Japan agreed in May to fund a U.N. pilot program for conflict management. The project will organized a conference on conflict management measures, especially civic education, with a view to reducing the violence that some expect to arise prior to the elections that are scheduled for 2002 and 2003. Although Nigeria is not formally a war-torn economy, there have been serious outbreaks of ethnic and religious conflict in recent months, and this project is designed to help preempt future violence.

As a third example, consider the aid that Japan approved between May and October 2001 to support refugees. A list of grants that were approved the government is shown in Table 10.1; although they represent only a modest part of total Japanese aid to war-torn economies, the list is useful in that it helps bring to life the types of conflict-related disasters that need quick attention from the international community.

Table 10.1 Recent Japanese Relief Funding

		$ millions
March 2001	Colombia; aid to refugees and internally displaced persons	1.2
	Rwanda; aid to returnees	1.6
	Afghanistan; aid to internally displaced persons	1.9
	Tajikistan: aid to internally displaced persons	3.0
	Melaku (Indonesia): aid to internally displaced persons	1.0
	Ethiopia/Eritrea: aid to help demarcate the border	1.1
September 2001	Former Yugoslav Republic of Macedonia: Aid to UNHCR for refugees	1.0
October 2001	Pakistan: aid for refugee camps	7.5*
	Tajikistan: food aid for Afghan refugees	2.2*
	Pakistan: food aid for Afghan refugees	4.7*

Source: Japan Ministry of Foreign Affairs Website, October 2001 (http://www.mofa.go.jp).
Note: *Part of a $120 million commitment to help with the humanitarian crisis related to the war in Afghanistan.

Japan has also played a direct role in peacekeeping, although it has been a modest one by the standards of other developed countries. The International Peace Cooperation Law of 1992 allows Japanese Self-Defence Force personnel to join United Nations peacekeeping operations. Since then Japan has sent a total of about 1,500 military personnel to help with such activities as observing elections, supporting refugees, and rebuilding infrastructure, to Angola, Cambodia, Mozambique, El Salvador, East Timor, Rwanda and Bosnia.

10.2 JBIC Lending and War-Torn Economies

Prior to 1991, JBIC made essentially no loans to war-torn economies. There are a number of explanations for this. As noted above, official policy made little mention of helping these economies. Where urgent humanitarian relief was needed, this was seen as calling for grants (the preserve of JICA) rather than loans. And even if the aid was more developmental in nature, there are often real practical problems in lending to governments that are still shaky and establishing themselves (although the Bosnian case is an important exception to this rule). Moreover, JBIC lending is heavily concentrated in Asia, where wars are somewhat less common; the loans are large, and so often unsuitable for "starter" projects in small countries; and they put a heavy emphasis on infrastructure, where funds are not quick disbursing.

Since 1991, a number of loans have been extended to post-conflict societies – to Bosnia, Cambodia, El Salvador, Guatemala, Iran, Lebanon, Nicaragua and Uganda. Loans to these countries accounted for a modest 1.3% of the value of all loans made by JICA during the period 1991-2001. A complete listing of the relevant loans is given in Table 10.2. To give the full flavor of these loans, it is worth considering four examples in slightly more detail:

(1) In March 1997, JBIC approved a ¥13.0 billion loan to Lebanon for "Assistance for Post-Civil War Reconstruction." This untied loan, with an interest rate of 2.5%, 7 year grace period, and 25 year repayment period, was designed to finance an improved sewage system in Saida (the third largest city in the country) and to improve the water supply in the populous district of Kesrouan. These projects were part of a larger project on pollution control and water supply, which also drew funding from the World Bank, European Union, and Arab Fund for Economic and Social Development. The civil war in Lebanon ended in 1990 and the resumption of peace was followed by rapid economic growth, which averaged 6.5% annually from 1992 to 1995.

(2) The first JBIC loan to Bosnia and Herzegovina was approved in December 1998 and provided ¥4.1 billion to "support the reconstruction of power sector." The untied, 40-year loan carried an interest rate of just 0.75% per year. The loan was used to finance the rehabilitation of four coal mines that are adjacent to thermal power plants. After a civil war that left 250,000 dead, the Dayton Accords were signed in December 1995, and created the Federation of Bosnia and Herzegovina and the Republika Srpska under the umbrella of Bosnia and Herzegovina.

(3) JBIC extended a loan of ¥4.1 billion to Cambodia in March 1999 to finance the creation of a new container terminal in Sihanoukville, the most important port in the country. Repayable over 30 years, with a 10

year grace period, the loan carried an interest rate of 1%. Peace returned to Cambodia after the Paris Peace Agreement of 1991; elections were held in 1993 and 1998, and Cambodia became a member of ASEAN in April 1999.

(4) A total of four loans have been extended by JBIC to Guatemala. The most recent of these, singled in September 1999, was a ¥5.8 billion loan at 2.2% interest and with 30 years to repay, for two road projects stretching over 198 kilometers. The peace agreement of 1996 essentially ended a period of low-level, but destructive, civil war during which investments in infrastructure were minimal. The road project was financed jointly with the World Bank, and was expected to reduce rural poverty by providing better market access for poor parts of the country.

In short, JICA is slow to lend to war-torn economies, but is increasingly willing to do so once it is clear that the governments are viable and the funds can be put to good use, and if other major aid organizations are involved too.

Table 10.2 JBIC Loans to War-Torn Economies, 1991-2001

Country	Project	War ended in:	Date loan approved	Value of loan (¥ millions)	Main loan**		
					% interest rate	Repayment period	Grace period
Bosnia and Herzegovina	Emergency Electric Power Improvement Project	1995	Dec. 1998	4,110	0.75	40	10
Cambodia	Sihanoukville Port Urgent Rehabilitation Project	1989	Mar. 1999	4,142	1	30	10
El Salvador	Water Supply And Sewerage System Improvement Project	1991	Mar. 1993	1,210	3	30	10
	Power Sector Emergency Improvement Project: Power Plants	1991	Mar. 1993	8,817	3	30	10
	Road Improvement Project	1991	May, 1994	10,332	3	30	10
	Electric Power Sector (Ii); Transmission Lines, Distribution Systems	1991	July, 1996	7,585	3	30	10
Guatemala	Guatemala City Groundwater Development Project*	1995	June, 1992	4,711	2.7	30	10
	Urban-Rural Community Infrastructure	1995	Dec. 1995	3,112	3	30	10
	Rural And Main Roads Rehabilitation Project	1995	Sept. 1999	5,781	2.2	30	10
Iran	Godar-E-Landar Hydroelectric Power Project	1988	June, 1993	38,614	3	25	7
	Masjid-E-Soleiman Hydroelectric Power Project (Ii)	1988	Oct. 2000	7,494	2.2	25	7
Lebanon	Coastal Pollution Control And Water Supply Project	1990	Mar. 1997	13,002	2.5	25	7
Nicaragua	Structural Adjustment Program	1989	Oct. 1991	9,701	2.6	30	10
	Economic Recovery Program (Ii)	1989	Dec. 1994	3,878	2.6	30	10
Uganda	Structural Adjustment Loan	1986	May, 1993	6,247	1	30	10
Total				**128,736**			

Notes: * partially tied; all other projects are untied. ** Loan conditions shown here refer to main portion of the loan. In some cases different rates apply to consulting components of the project.
Source: www.jbic.go.jp accessed March 17, 2002.

11 Concluding Thoughts

Let us return to the three questions that we asked at the beginning of this report. First, how much special attention should aid agencies pay to post-war reconstruction? The answer is “a lot.” Wars are widespread and their effects devastating. War-torn economies require flexibility on the part of donors, as well as lots of patience. But it can be done, and there are plenty of examples of successful interventions by donors in post-conflict economies.

Second, how, if at all, does post-war economic reconstruction differ from the “normal” problems faced by aid donors wishing to foster economic development? The most striking feature of most war-torn economies is the poor state of their institutions. Once the need for immediate humanitarian assistance has passed, donors need to work closely with local governments to build “capacity”, the ability eventually to help oneself rather than rely indefinitely on others. Unfortunately, local capacity building is difficult and is rarely done very successfully.

Finally, what role does, and might, Japan (and JBIC in particular) play in providing development assistance to war-torn economies? Directly and indirectly Japan contributes about $1.5 billion annually to foster the development of war-torn economies; even so, both formally and in practice, support for war-torn economies is a relatively low priority for the country’s development assistance efforts.

It is not clear that Japan should be doing more to help war-torn economies. The country already contributes heavily to multilateral agencies, such as the UN High Commissioner for Refugees, which play an important role in post-conflict societies. And some of the key tasks – coordinating donor efforts, helping the government achieve macroeconomic stabilization – play more to the strengths of organizations such as the World Bank.

On the other hand there are some areas where a change in JBIC policy is worth considering. For instance:

(1) JBIC could move earlier to lend to war-torn economies. The World Bank was able to extend IDA loans to Bosnia almost as soon as peace was established. JBIC could ally itself with efforts such as these. Alternatively, it could lend entirely on its own, although in this case it would also need to invest more heavily in gathering information and

building working relationships with the leaders of the countries in question – perhaps starting with the type of "watching briefs" that the World Bank uses to keep abreast of developments in societies in the throes of conflict (Madavo 1999). The case for acting more quickly is that war-torn economies almost always need substantial investment in sectors such as power, telecommunications and infrastructure, which are areas of traditional JBIC strength. It is also important that development aid begin to arrive quickly – bridging "the gap" – lest humanitarian relief efforts go on too long.

(2) JBIC could consider smaller projects for war-torn economies. Most war-torn economies are small, and have difficulty handling large projects, at least initially. Of course smaller projects are also more expensive to manage, per dollar lent.

Smaller initial projects would reduce the risk involved in lending to war-torn countries. They would also make it easier to lend to private firms, if JBIC were willing to do this. Increasingly, private firms are able to mobilize funds for such activities as telecommunications, electricity generation, and ports, even in war-torn economies; the easy availability of IDA and JBIC loans sometimes inhibits the development of the private sector (as in Vietnam, for instance).

(3) JBIC could usefully coordinate more closely with JICA in crafting a package of help for war-torn economies. One could imagine a situation where an economy first receives grants from JICA (especially for humanitarian relief) and then, provided its performance is good, "graduates" to JBIC loans. However, it is not clear that there is sufficient sharing of information between JBIC and JICA, a weakness that leads to duplication of information-gathering effort or potential policy inconsistencies. This stands in contrast with, for instance, the World Bank where essentially the same teams evaluate and appraise projects for IBRD or IDA funds.

(4) JBIC might consider the establishment of a trust fund, designed to finance pilot and pre-project activities in war-torn economies. This would allow JBIC to move quickly, gain experience on the ground, and look for good funding opportunities without yet committing large sums of money.

(5) Although JBIC's new (draft) medium-term strategy gives a role to "knowledge assistance," this is an area where JBIC will need to develop greater focus in order to be effective. What forms would this assistance take? How would it be financed? Would the projects stand alone, or only be linked with larger "bricks and mortar" projects? On the other hand it

is clear that there is a need for knowledge assistance, particularly in war-torn economies where there is usually a dearth of skilled policy makers, engineers, and managers.

These are offered as suggestions worth debating, rather than as full-blown recommendations. The key point is that JBIC could play a somewhat stronger role in post-war reconstruction and peace building if it so wishes.

Appendix Tables

Appendix Table 1 Total Aid, 1999

($ millions)

	Japan		US	EU	Germany	France	Italy	U.K.	Canada	Australia	All
	% of total	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Africa											
Angola	6.1	28.5	57.2	196.3	27.4	12.8	30.9	6.4	8.8	3.5	463.3
Burundi	3.7	4.1	20.9	46.3	4.2	11.4	3.8	2.2	3.4	0.5	110.3
DR Congo	3.0	5.5	17.6	100.0	15.7	18.7	5.3	6.1	4.3	0.5	185.9
Eritrea	1.5	2.7	15.7	72.0	6.0	3.3	32.1	1.5	1.8	0.5	172.6
Ethiopia	6.3	54.8	109.0	267.9	58.1	27.5	34.6	17.4	22.5	5.6	864.8
Liberia	4.7	6.7	40.2	24.6	-0.8	5.0	7.1	8.2	11.4	10.3	142.5
Mozambique	4.1	69.1	85.6	547.2	64.9	54.2	20.7	53.5	14.8	11.2	1686.4
Rwanda	3.3	15.9	53.6	182.1	30.3	17.5	10.8	29.3	13.9	3.5	484.7
Sierra Leone	2.8	2.5	19.9	39.1	6.0	1.9	1.2	17.9	2.7	0.5	89.2
Somalia	1.6	2.3	22.0	60.7	6.0	3.8	20.7	4.0	1.1	0.2	138.7
Sudan	2.5	7.3	76.6	85.8	16.1	7.2	3.5	15.9	6.0	5.6	290.7
Uganda	5.5	41.4	73.5	354.9	45.0	15.7	16.0	100.7	7.1	3.9	753.0
Europe and Former Soviet Union											
Armenia	2.5	6.3	59.3	48.4	13.8	6.0	5.5	2.6	3.0	1.1	258.4
Azerbaijan	6.4	13.7	22.4	52.2	25.9	4.9	6.1	2.2	2.9	1.2	215.4
Bosnia	3.4	39.5	230.8	496.7	86.1	127.4	53.6	14.9	16.4	1.0	1178.1
Croatia	1.3	0.7	10.9	17.1	3.1	2.7	-2.4	2.4	0.3	0.0	54.5
Georgia	n/a	13.5	43.9	65.4	28.4	9.6	11.1	8.8	10.0	9.2	n/a
Kosovo	6.4	32.1	50.0	124.3	-4.4	41.7	12.6	39.2	1.0	4.2	502.4
Tajikistan	16.8	32.9	26.8	31.4	12.2	6.6	8.2	7.1	10.8	9.5	196.1
Yugoslavia	0.1	0.5	38.2	355.5	122.3	7.1	6.7	7.3	37.6	52.3	653.1
Middle East and North Africa											
Algeria	-3.3	-3.4	1.1	47.6	4.2	75.4	-2.5	1.2	2.3	0.3	103.6
Gaza/west Bank	9.7	56.8	92.1	190.3	33.4	17.7	25.9	23.9	12.9	10.1	586.4
Iran	29.0	53.3	3.4	97.7	60.2	9.7	0.7	2.0	0.2	0.9	183.8
Iraq	-2.0	-1.5	-0.7	47.1	26.6	9.8	10.1	21.3	13.2	16.1	75.0
Lebanon	1.7	3.8	18.2	76.8	9.1	41.7	3.5	3.7	3.6	0.5	224.8
Asia											
Afghanistan	1.7	2.9	35.3	67.8	18.7	2.3	1.4	8.0	9.7	0.4	167.6
Cambodia	32.7	131.6	20.3	102.8	28.5	25.2	3.9	9.4	3.5	19.0	402.7
East Timor	0.1	0.2	2.3	79.9	6.3	8.7	10.9	15.3	14.3	87.8	173.8
Laos	58.2	271.8	10.6	73.8	27.5	13.6	2.7	1.9	2.7	11.8	467.1
Myanmar	33.8	37.9	4.0	24.1	3.3	4.9	0.6	3.3	1.2	2.1	112.2
Sri Lanka	69.0	429.0	15.1	79.0	23.0	4.7	5.7	10.7	7.4	13.3	621.7
Latin America and Caribbean											
Colombia	8.3	26.5	185.4	76.9	24.6	12.6	-1.1	5.8	6.4	0.7	317.4
El Salvador	27.7	54.1	50.5	73.0	21.3	4.8	1.8	1.2	3.3	0.3	195.3
Guatemala	22.0	68.5	52.5	105.5	25.9	6.4	-0.8	3.3	5.6	0.4	311.3
Nicaragua	6.2	51.1	83.5	284.6	42.2	14.5	16.3	7.2	13.9	2.9	821.1
Summary Statistics											
Total, war-torn ecs.	11.8	1562.5	1647.6	4594.8	921.0	636.6	367.0	465.2	280.0	290.7	13203.5
All LDCs	22.3	14615.6	8248.7	22252.2	4429.8	5126.1	1142.5	2652.2	1493.2	936.1	65542.0
WTE as % all aid		10.7	20.2	20.6	20.8	12.4	32.1	17.5	18.7	31.1	**20.1**

Notes: “WTE” = War-Torn Economies. The first column of figures shows Japanese aid (i.e. grants plus imputed multilateral aid plus loans extended less loan repayments) as a percentage of all aid, for each of the war-torn economies shown. The last row of figures shows, for each country, the proportion of aid that flows to war-torn economies.

Appendix Table 2 Total Bilateral Grant Aid, 1999

($ millions)

	Japan		US	EU	Germany	France	Italy	U.K.	Canada	Australia	All
	% of total	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Africa											
Angola	6.9	22.0	48.1	120.8	18.0	8.7	25.0	3.6	3.1	0.8	318.8
Burundi	1.3	1.1	15.8	30.3	1.7	9.6	2.2	0.8	2.0	0.0	81.1
DR Congo	0.1	0.1	11.2	74.2	12.1	17.3	3.8	2.4	2.6	0.0	152.1
Eritrea	0.5	0.4	11.5	46.7	3.5	1.2	18.6	0.7	1.0	0.1	85.5
Ethiopia	8.7	40.4	77.4	166.0	38.4	10.9	18.7	12.0	14.8	0.8	465.3
Liberia	1.4	1.5	36.4	10.7	0.7	0.0	0.0	1.1	0.1	0.0	102.2
Mozambique	4.4	64.3	70.6	490.2	51.6	45.3	11.6	49.4	11.7	9.8	1466.6
Rwanda	2.8	8.0	39.8	129.3	18.8	14.5	2.5	26.5	6.2	0.0	287.5
Sierra Leone	1.5	1.2	17.4	29.8	4.4	0.5	0.0	17.1	2.2	0.2	77.4
Somalia	0.0	0.0	19.4	47.0	3.7	2.8	19.6	2.1	0.4	0.1	117.0
Sudan	0.2	0.6	71.5	61.0	12.7	5.4	1.6	13.2	4.1	4.4	249.0
Uganda	5.8	28.2	47.4	279.2	28.6	2.4	5.2	96.4	2.6	0.7	489.1
Europe and Former Soviet Union											
Armenia	3.3	3.4	47.9	18.2	5.1	2.0	0.8	1.3	0.7	0.0	103.1
Azerbaijan	10.3	7.8	12.5	13.1	6.8	1.4	1.7	1.2	0.6	0.0	75.8
Bosnia	3.8	36.4	218.9	380.0	31.7	115.7	41.2	6.9	14.3	0.0	961.7
Croatia	1.2	0.7	11.4	22.6	9.5	2.0	0.9	1.7	0.3	0.0	60.2
Georgia		10.2	25.3	23.5	9.8	1.2	0.6	1.5	0.5	0.0	n/a
Kosovo	7.0	32.0	50.0	81.4	0.0	32.0	3.0	30.9	1.0	4.2	459.4
Tajikistan	2.4	1.6	19.5	8.6	3.9	0.0	0.0	0.1	1.8	0.0	64.4
Yugoslavia	0.0	0.1	36.9	352.0	119.1	3.0	1.6	1.1	30.3	44.2	641.0
Middle East and North Africa											
Algeria	0.6	0.8	0.1	103.1	11.1	76.3	2.2	0.1	2.6	0.0	141.2
Gaza/west Bank	11.5	56.1	84.9	141.8	26.2	12.0	18.5	10.7	0.5	1.0	487.9
Iran	6.6	8.1	0.0	89.5	61.4	9.0	0.1	0.8	0.0	0.0	122.1
Iraq	1.3	1.0	0.0	52.8	21.6	1.8	0.2	11.0	0.0	0.0	75.9
Lebanon	1.1	1.6	14.8	48.0	6.8	29.6	2.6	0.4	1.9	0.0	140.6
Asia											
Afghanistan	0.1	0.1	32.1	51.6	16.5	1.3	0.4	4.4	8.7	0.1	140.9
Cambodia	23.6	50.9	15.8	75.0	21.6	22.1	0.5	7.5	1.2	16.7	216.0
East Timor	0.0	0.0	0.0	74.2	0.0	0.6	0.7	3.1	0.0	71.7	152.8
Laos	54.0	118.3	6.0	54.4	21.7	10.9	0.0	0.9	0.7	8.6	218.9
Myanmar	35.8	24.6	0.0	9.1	1.6	4.3	0.0	1.2	0.2	1.9	68.6
Sri Lanka	32.5	64.6	25.7	55.1	17.8	1.2	0.0	10.9	5.4	6.3	198.4
Latin America and Caribbean											
Colombia	4.4	14.3	193.9	75.9	25.0	13.8	2.5	4.7	5.7	0.4	328.1
El Salvador	19.2	31.7	50.8	53.7	15.4	3.9	0.9	0.4	2.7	0.0	165.3
Guatemala	16.6	44.9	64.1	95.6	23.1	4.5	1.2	0.8	4.4	0.0	270.3
Nicaragua	10.7	44.8	64.0	225.8	25.7	4.8	7.6	2.6	6.7	0.0	419.5
Summary Statistics											
Total, war-torn ecs.	7.7	721.6	1440.7	3590.2	675.3	472.1	195.8	329.6	140.8	171.9	9403.5
All LDCs	12.9	5475.2	7638.0	17060.1	3235.6	4319.9	550.7	2067.0	1194.6	729.8	42546.6
WTE as % all aid		13.2	18.9	21.0	20.9	10.9	35.5	15.9	11.8	23.5	**22.1**

Notes: "WTE" = War-Torn Economies. The first column of figures shows Japanese grants as a percentage of all grants, for each of the war-torn economies shown. The last row of figures shows, for each country, the proportion of grants that flow to war-torn economies.

Appendix Table 3 Total Imputed Multilateral Aid, 1999

($ millions)

	Japan		US	EU	Germany	France	Italy	U.K.	Canada	Australia	All
	% of total	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Africa											
Angola	8.6	6.5	9.1	43.9	9.4	4.2	5.9	2.8	5.8	2.7	75.7
Burundi	9.9	3.0	5.1	16.4	2.5	2.0	1.74	1.4	1.4	0.5	30.3
DR Congo	11.8	5.4	6.4	25.7	3.5	1.5	1.52	3.6	1.7	0.5	45.8
Eritrea	9.3	2.2	4.2	13.7	2.5	2.1	1.81	0.8	0.9	0.4	23.9
Ethiopia	8.1	14.4	31.7	102.9	20.6	16.7	15.9	5.4	7.7	4.8	177.3
Liberia	13.3	5.2	2.8	19.4	3.0	1.0	2.11	1.1	4.3	2.3	39.5
Mozambique	6.2	5.8	15.0	60.8	13.4	9.8	9.12	4.1	3.1	1.4	93.5
Rwanda	7.8	7.9	13.9	57.1	11.6	7.3	8.3	2.7	7.7	3.5	101.5
Sierra Leone	8.7	1.4	2.5	9.3	1.6	1.4	1.18	0.8	0.6	0.3	15.7
Somalia	10.2	2.3	2.6	13.7	2.3	1.0	1.06	1.9	0.7	0.2	22.0
Sudan	15.0	6.7	5.1	24.8	3.5	1.7	1.91	2.7	1.9	1.3	44.9
Uganda	9.5	13.2	26.1	81.2	16.4	13.3	12.3	4.3	4.4	3.2	139.7
Europe and Former Soviet Union											
Armenia	5.9	2.9	11.4	28.4	6.9	4.0	4.72	1.2	2.3	1.1	49.2
Azerbaijan	6.3	2.9	9.9	26.7	6.7	3.5	4.42	1.0	2.3	1.2	46.0
Bosnia	3.0	3.1	11.9	81.4	21.1	11.7	12.39	8.0	2.2	1.0	102.9
Croatia	3.7	0.2	0.2	5.3	1.3	0.7	0.67	0.7	0.1	0.0	6.0
Georgia		3.2	12.7	32.7	8.4	4.4	5.54	1.3	2.5	1.2	0.0
Kosovo	0.1	0.0	0.0	64.8	17.5	9.6	9.54	8.2	0.0	0.0	64.9
Tajikistan	48.6	31.4	6.2	20.8	5.3	2.6	3.18	1.0	2.0	1.5	64.6
Yugoslavia	12.4	0.4	0.3	1.6	0.2	0.1	0.11	0.2	0.3	0.1	3.1
Middle East and North Africa											
Algeria	11.6	1.7	1.1	9.9	2.0	1.1	1.09	1.1	0.3	0.3	14.3
Gaza/west Bank	1.2	0.7	6.3	38.1	4.0	1.7	2.33	7.3	5.4	1.1	61.2
Iran	23.7	5.3	3.4	10.3	0.9	0.7	0.62	1.2	0.2	0.9	22.2
Iraq	13.1	-2.5	-2.7	-9.7	-1.0	-0.1	-0.01	-1.7	-0.8	0.1	-19.0
Lebanon	7.2	2.2	3.5	19.3	2.8	1.4	1.53	3.3	1.7	0.5	30.8
Asia											
Afghanistan	11.0	2.8	3.2	14.6	2.2	0.9	1.04	1.9	1.1	0.3	25.1
Cambodia	65.4	80.7	6.2	27.8	6.9	3.1	3.45	1.9	2.3	2.3	123.5
East Timor	7.5	0.2	0.3	1.7	0.3	0.1	0.21	0.1	0.3	0.1	3.0
Laos	81.2	139.2	4.5	19.5	5.9	2.7	2.7	1.0	2.1	3.2	171.4
Myanmar	13.2	3.8	4.5	14.9	1.7	0.6	0.61	2.2	1.0	0.2	28.4
Sri Lanka	81.8	293.0	9.9	37.8	12.2	5.4	5.74	1.4	4.8	7.1	358.2
Latin America and Caribbean											
Colombia	13.7	2.0	1.6	9.4	2.2	1.1	1.12	1.1	0.7	0.3	14.9
El Salvador	9.1	1.1	1.1	7.5	1.5	0.9	0.86	0.8	0.7	0.3	11.7
Guatemala	6.3	1.1	0.8	13.3	3.3	1.9	1.67	1.3	1.2	0.4	18.0
Nicaragua	6.5	6.3	19.3	53.9	13.9	7.6	8.67	1.3	7.2	2.9	97.0
Summary Statistics											
Total, war-torn ecs.	**31.1**	655.8	240.0	998.5	216.3	127.2	135.1	77.3	79.9	46.8	2106.8
All LDCs	**35.9**	4139.8	1400.9	4877.3	1152.3	658.7	691.8	403.7	321.3	206.3	11528.6
WTE as % all aid		**15.8**	17.1	20.5	18.8	19.3	18.5	19.2	24.9	22.7	**18.3**

Notes: "WTE" = War-Torn Economies. The first column of figures shows imputed Japanese aid as a percentage of all multilateral aid, for each of the war-torn economies shown. The last row of figures shows, for each country, the proportion of multilateral aid that is attributable to war-torn economies.

Appendix Table 4 Total Net Loans Extended, 1999

($ millions)

	Japan		US	EU	Germany	France	Italy	U.K.	Canada	Australia	All
	% of total	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Africa											
Angola	0.0	0.0	0.0	31.6	0.0	0.0	0.0	0.0	0.0	0.0	68.8
Burundi	0.0	0.0	0.0	-0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	-1.1
DR Congo	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-12.0
Eritrea	0.0	0.0	0.0	11.7	0.0	0.0	11.7	0.0	0.0	0.0	63.3
Ethiopia	0.0	0.0	0.0	-1.0	-1.0	0.0	0.0	0.0	0.0	0.0	222.2
Liberia	0.0	0.0	1.0	-5.6	-4.6	4.0	5.0	6.0	7.0	8.0	0.9
Mozambique	-0.8	-1.0	0.0	-3.8	0.0	-0.9	0.0	0.0	0.0	0.0	126.3
Rwanda	0.0	0.0	0.0	-4.4	0.0	-4.4	0.0	0.0	0.0	0.0	95.8
Sierra Leone	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.8
Somalia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3
Sudan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.3
Uganda	0.0	0.0	0.0	-5.5	0.0	-0.1	-1.6	0.0	0.0	0.0	124.1
Europe and Former Soviet Union											
Armenia	0.0	0.0	0.0	1.8	1.8	0.0	0.0	0.0	0.0	0.0	106.1
Azerbaijan	3.2	3.0	0.0	12.5	12.5	0.0	0.0	0.0	0.0	0.0	93.6
Bosnia	0.0	0.0	0.0	35.3	33.3	0.0	0.0	0.0	0.0	0.0	113.5
Croatia	1.8	-0.2	-0.8	-10.8	-7.7	0.0	-4.0	0.0	0.0	0.0	-11.7
Georgia		0.0	6.0	9.2	10.2	4.0	5.0	6.0	7.0	8.0	9.0
Kosovo	0.0	0.0	0.0	-21.9	-21.9	0.0	0.0	0.0	0.0	0.0	-21.9
Tajikistan	0.0	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	67.2
Yugoslavia	0.0	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Middle East and North Africa											
Algeria	11.2	-5.8	0.0	-65.4	-8.8	-2.0	-5.8	0.0	-0.6	0.0	-51.9
Gaza/west Bank	0.0	0.0	1.0	10.4	3.2	4.0	5.0	6.0	7.0	8.0	37.2
Iran	101.2	39.9	0.0	-2.1	-2.1	0.0	0.0	0.0	0.0	0.0	39.5
Iraq	0.0	0.0	2.0	4.0	6.0	8.0	10.0	12.0	14.0	16.0	18.0
Lebanon	0.0	0.0	-0.1	9.5	-0.5	10.7	-0.6	0.0	0.0	0.0	53.4
Asia											
Afghanistan	0.0	0.0	0.0	1.6	0.0	0.0	0.0	1.6	0.0	0.0	1.7
Cambodia	0.0	0.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	63.3
East Timor	0.0	0.0	2.0	4.0	6.0	8.0	10.0	12.0	14.0	16.0	18.0
Laos	18.6	14.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	76.8
Myanmar	63.0	9.6	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.3
Sri Lanka	109.7	71.5	-20.5	-14.0	-7.1	-1.9	0.0	-1.6	-2.9	0.0	65.1
Latin America and Caribbean											
Colombia	-39.4	10.1	-10.1	-8.3	-2.6	-2.2	-4.7	-0.1	0.0	0.0	-25.7
El Salvador	116.6	21.3	-1.4	11.9	4.4	0.0	0.0	0.0	-0.1	0.0	18.3
Guatemala	97.4	22.4	-12.4	-3.4	-0.5	0.0	-3.7	1.2	-0.1	0.0	23.0
Nicaragua	0.0	0.0	0.2	4.9	2.6	2.2	0.0	3.3	0.0	0.0	304.6
Summary Statistics											
Total, war-torn ecs.	10.9	185.1	-33.2	6.1	29.4	37.3	36.2	58.3	59.3	72.0	1702.3
All LDCs	43.6	5000.6	-790.1	314.8	42.0	147.5	-100.0	181.5	-22.7	0.0	11466.8
WTE as % all aid		3.7	4.2	1.9	69.9	25.3	-36.2	32.1	-261.1		**14.8**

Notes: "WTE" = War-Torn Economies. The first column of figures shows Japanese net loans (i.e. loans extended less loan repayments) as a percentage of all net loans, for each of the war-torn economies shown. The last row of figures shows, for each country, the proportion of net loans that flow to war-torn economies.

Appendix Table 5   JBIC Loans, 1971-1991

	Number of projects			Value of projects (millions of yen)			% of projects (by value)			Loan per project, (millions of yen)		
	1971-1981	1981-1991	1991-2001	1971-1981	1981-1991	1991-2001	1971-1981	1981-1991	1991-2001	1971-1981	1981-1991	1991-2001
Agriculture, Forestry And Fisheries	21	39	62	103,872	206,351	431,499	4.1	3.0	4.2	4,946	5,291	6,960
Commodity Loans	60	109	61	487,590	1,399,091	1,294,079	19.2	20.4	12.6	8,127	12,836	21,214
Electric Power And Gas	126	148	189	548,793	1,432,238	2,293,083	21.6	20.9	22.4	4,356	9,677	12,133
Irrigation And Flood Control	39	80	81	98,808	356,400	738,828	3.9	5.2	7.2	2,534	4,455	9,121
Mining And Manufacturing	82	77	39	361,443	766,256	476,174	14.2	11.2	4.6	4,408	9,951	12,210
Social Services	30	91	202	125,822	485,829	1,624,580	4.9	7.1	15.8	4,194	5,339	8,042
Telecommunications	62	74	44	147,990	476,042	325,004	5.8	6.9	3.2	2,387	6,433	7,386
Transportation	154	223	301	662,431	1,687,179	3,071,927	26.1	24.6	30.0	4,302	7,566	10,206
Other	3	7	-	5,200	50,981	-	0.2	0.7	0.0	1,733	7,283	
Africa	53	97	70	284,121	589,193	475,302	11.2	8.6	4.6	5,361	6,074	6,790
Central Asia And Caucasia	-	-	21	-	-	203,597	0.0	0.0	2.0			9,695
East Asia	36	131	191	293,271	1,255,543	1,710,611	11.5	18.3	16.7	8,146	9,584	8,956
Europe	1	1	10	4,832	21,392	93,214	0.2	0.3	0.9	4,832	21,392	9,321
Latin America And The Caribbean	16	40	65	86,256	385,851	943,294	3.4	5.6	9.2	5,391	9,646	14,512
Oceania	3	8	4	3,500	42,391	18,581	0.1	0.6	0.2	1,167	5,299	4,645
South Asia	51	163	169	384,203	1,434,537	1,809,811	15.1	20.9	17.6	7,533	8,801	10,709
Southeast Asia	405	391	427	1,428,106	2,853,542	4,484,514	56.2	41.6	43.7	3,526	7,298	10,502
The Middle East	12	17	22	57,660	277,918	516,250	2.3	4.1	5.0	4,805	16,348	23,466
Overall	577	848	979	2,541,949	6,860,367	10,255,174	100.0	100.0	100.0	4,405	8,090	10,475

Note: 1971-1981 refers to April 1, 1971 – March 31, 1981. 1981-1991 refers to April 1, 1981 – March 31, 1991. 1991-2001 refers to April 1, 1991 – March 31, 2001.
Source: www.jbic.go.jp accessed March 17, 2002.

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