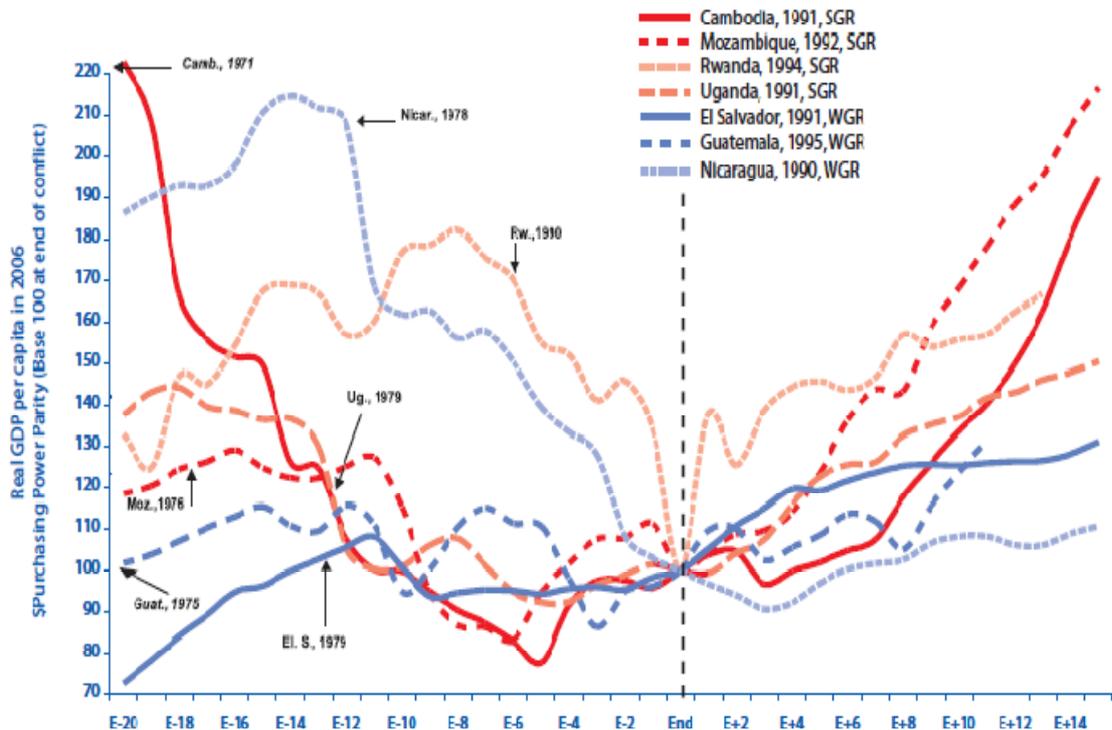


## Lecture 7: Post Conflict Reconstruction

- One of the major concerns facing the developing world is how to deal with the aftermath of conflict. Conflicts can be immensely damaging to economies, as have seen:

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



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

- As well as having profound economic effects also leave scars on society that go much deeper.
- Successful recovery from conflict is a difficult path fraught with dangers and riddled with economic, social and political problems
- Despite the importance of this issue there is surprisingly little substantive work on the subject.

## **Conflicts**

- Have seen that numbers of armed conflicts has declined and those that have occurred mainly civil wars
- Wide variation in the intensity of these conflicts, from 'low intensity' guerrilla-government conflicts, to conflicts between relatively large and well-equipped armies. Ranged from ideological struggles (Mozambique, Eritrea, Nicaragua), to more fragmented decentralised conflicts (Somalia and Rwanda).
- With many conflicts a mixture of both at any particular time
- Have also seen nature of war has been changing:
  - increasing role for less formal armies
  - lack of battlefield engagement
  - increased involvement of civilians as victims
- Have also seen war is associated with slow growth, declining food production and declining exports. While war is generally not the only or essential cause of such economic problems, but once it has started it does impact negatively (Harris, 1999)

## **War Economies**

- Civil wars often lack a clear military goal and are difficult to bring to an end by military or political means.
- The characteristics of a civil war economy and polity makes reversion to peaceful existence extremely difficult.
  - easy availability of weapons,
  - fragmented polity, governance, institutions
  - the alienated young, the problems of demobilisation,
  - the shattered infrastructure and the elites dependent on military rather than civil actions for their power and legitimacy.
  - Vested interests that developed
- All such factors and the variety of forms and causes of conflict makes peace a difficult achievement and recovery from conflict difficult and fraught with the danger of a return to fighting,

## **Transition to peace**

- The peace will first depend on how the war ended, victory, international imposition, exhaustion

- As war moves to peace the country and economy will require reconstruction and this will certainly need to be designed in such a way as to prevent any of the parties reverting back to war.
- This of course raises the question of how peace is defined and different groups are likely to disagree on this. Clearly, the process of transition to a commonly accepted 'peace' is as important as the end of hostilities.
- Rehabilitation and reconstruction is likely to aim for more than a return to the pre-conflict economic, political and social life. This leads to difficulties and specific problems for each individual situation.
- An important concern is the possibility of moving back to crisis, simply because it makes economic sense. It has to be clear to the protagonists that they will benefit from the peace more than going back to war.

### **Phases of recovery**

- Harris (1999) presents a useful summary of the four phases of recovery and reconstruction.
  - Ending the fighting: can take time to end all conflict and to put any peace agreement into practice.
  - Rehabilitation and restoration, which will include the removal of limitations on civil activity, re-establishing civil law, re-establish civil institutions, disarming ex combatants, de-mining roads, and returning displaced persons.
  - Reconstruction and/or replacement: gaining financial resources for reconstruction, replacing and repairing capital and infrastructure, demobilisation and resettlement, rehabilitating victims, introducing or reintroducing democracy, developing and restructuring civil institutions, beginning reconciliation.
  - Development and transformation: adopting and implementing a new vision, undertaking structural changes, establishing new institutions, and continuing reconciliation.
- Each stage can present different challenges and can have different implications for the international agencies that move in to support countries emerging from conflict. It may also be possible that agencies moving in at later stages are restricted in how involved they can get and what contribution they can make as many structures and processes are already in place.

## **Recovery and Reconstruction**

- End of conflict can also provide opportunities.
  - population is likely to have the energy for and acceptance of relatively radical economic and social change that could target socioeconomic problems, such as poverty and inequality.
  - Also, those with vested interests in maintaining the status quo of distribution are likely to be less organised and so provide little resistance in the immediate aftermath.
- The reform of the military is likely to be important in this period to prevent them becoming a fetter on change.
- Clearly there are opportunities, but they may need to be taken quickly.

## **Recovery and Reconstruction**

- Economic reconstruction is clearly vital and may start before the complete end of the conflict/crisis -an improving economy would clearly make it easier for all stages to be moved through.
- First actors involved are likely to be the aid agencies and the World Bank and IMF.
- Need balance demands for greater economic growth with those for greater social justice and human welfare. A series of changes and promises to deal with grievances are likely to have been agreed and to underpin any peace deal. To ignore these and to impose generic policies for economic growth, that may have high short run costs may well simply lead to a reigniting of hostilities.
- But economic policies are often externally imposed by the World Bank and the IMF, who tend to impose structural adjustment policies for economic growth and to oppose policies that are concerned with social justice and redistribution.
- Though their attitudes and policies have changed in recent years at least partly reflecting past failures.

## **Recovery and Reconstruction**

- Considerable opposition to the WB/IMF Washington consensus –structural adjustment policies has led to changes, but still considerable opposition to their policies.
- These include the concern of the ILO for the reduction of the ‘decent work deficit’ and their arguments for the recognition that different development trajectories can lead to the same outcome in economic terms in the long run, but the nature of the paths may be very different.
- Duffield (2000) argues that there is often a failure to recognise the importance of the informal sector, both during and after the conflict. Often externally imposed policies have tried to develop the formal sector at a cost to the informal, which can cause considerable problems.

## **Recovery and Reconstruction**

- End of a conflict should lead to a ‘Peace Dividend’,
  - as the benefits of reallocating military spending to civil areas has been termed.
  - likely to provide opportunities for government to reallocate spending, but it is likely to be limited in the short run.
- Conflicts seldom end tidily and continued military action may be required, even if only to defend the peace.
- Weapons often do not make up the majority of military expenditure in developing economies and demobilising soldiers or trying ‘regularise’ all combatants is problematic and can take time.
  - If it is done too quickly, the country could end up with disaffected and armed ex combatants and this can be dangerous.
  - Dismissing soldiers can also mean they are no longer spending their income reducing demand in the economy
  - This reduction in spending of combatants could reduce the demand in regions that most need it
- A ‘war’ economy faced with a sudden change in the form and level of demand will find it difficult to adjust.
- Unfortunately, the fiscal possibilities are also likely to be limited as well given the state of the economy –dependency on aid
- The economic and socio-economic problems post conflict will depend upon the level of development of the country and the damage caused by the conflict.

- Conflict will reduce the capacity of economies to absorb labour, which is likely to lead to reduced employment in the economy.

#### Public Works:

- ILO (1995) suggests that employment intensive public works (EIPW) programmes are important in immediate post war conflict period as a result.
- The construction and maintenance of roads with such methods will create jobs at low cost and result in improvement to the infrastructure, which will lead to improved access for trade and industry.
- This will allow lots of jobs to be created quickly, creates assets, release commerce from constraints, add to capacity, facilitate access to economic and social services, stimulates economic growth, and of course assist in the demobilisation and reintegration of combatants.
- But if they are to produce effective infrastructure, a significant amount of supervisory and technical expertise needs to be in place
- It can also improve the income distribution in the country, through providing income to the very poorest members of society

#### Security:

- The end of war does not necessarily imply economic security.
- May be problems of micro security, with armed inhabitants desensitised to violence and high rates of robbery, likely to discourage the acquisition of visible assets, and macro insecurity, the considerable risk that war will be resumed. (Collier and Gunning, 1994)
- This can be reflected in political instability, which is likely to discourage private investment, especially foreign direct investment
- small scale national investment is particularly important as it drives the informal sector, probably the largest potential source of employment

- Also risk of fiscal shocks resulting from the war to peace transition. Governments may find it difficult to raise taxes or borrow from the public and will be tempted to print money, possibly resulting in inflation
- Collier and Gunning also argue that it is important for governments to encourage private investors to make irreversible investments. This will require the rebuilding of civil society with concern for investment sensitive reforms, such as inflation, valuation of exchange rate, restraint in revenue collection.
- The reestablishment of transport infrastructure is also vital. Aid can play a vital role and is itself a valuable way of encouraging other investment
- May be tension between developing local investment/entrepreneurs and encouraging foreign investment. eg keeping government expenditure down to keep inflation down may encourage investment in an economy but damage economic development, which itself may discourage foreign investment.

#### Agriculture:

- Agriculture is vital to reconstruction –need to get investment into the sector, support clear up, and to support agricultural development, through the development of public services, credit services and infrastructure.
- It is important to consider both subsistence and commercial farming, the former is crucial as it can allow much of the population to become self sustaining fairly rapidly and the latter is important as it may be the only earner of foreign exchange.
- land reform policies may be important, but need to be designed and implemented with care - prevent an exodus to urban areas
- Failing to prevent the break-up of social groups and communities could cause conflict with return of ex combatants, who will not be reintegrated into society (ILO, 1995).
- It is also important to recognise the impact conflicts can have on rural household behaviour and how this might effect their responses to attempts at reconstruction (Bruck, 2001)

#### Informal sector:

- In conflict situations, the informal economy can often come to the fore. This can be a complex circuit of exchange with international links, e.g. Sarajevo. But with the end of conflict the strength of this sector can act as a restraint on the reassertion of the formal economy and can introduce criminal elements.
- Indeed, as Duffield (1992) points out conflict can lead to a transfer of assets to middle men, which can be extremely destructive and embed inequality. At the same time this is usually a circulation of goods, with little new production of assets.

- The informal sector is, however, the only viable possibility of a livelihood for many and the impact of destroying it through reconstruction policies may not be compensated for by the growth of the formal sector.
- International intervention can in fact make things worse and care need to be taken by aid agencies and policy makers. Aid can destroy the existing market structures and lead to anomalies, such as farmers being ruined by inflows of cheap aid.

#### Macro Policy:

- It has become obligatory for conflict afflicted countries to undertake some form of short term stabilisation programme, to correct Balance of Payments problems and increase efficiency by reducing demand for imported goods.
- These typically involve currency devaluation , higher taxes, higher interest rates , and the reduction or removal of government services.
- There are also medium term adjustment and economic reform programmes, which include cuts in government spending, reduction in government staff, freezes on wages and salaries and privatisation, to reduce budgetary deficits.
- Basically such policies are aimed at removing distortions in incentives and they have been imposed by the World Bank and the IMF for these reasons, as conditions for them providing assistance.
- But structural adjustment type policies can be the biggest challenge to the socio-economic wellbeing of post conflict societies.
- Recently, the World Bank has started to show more flexibility and has recognised previous failures of such policies.
- Debate over the World Bank programmes, with many arguing that they are inappropriate and counterproductive for countries emerging from conflict.
  - lead to increased suffering for the poor in the short run
  - can lead to increases in corruption, as government salaries decline and officials revert to non legal means to supplement inadequate income.
- Can also prevent social reforms and the projects that aim to lower tensions and achieve the political stability and which may be needed to preserve peace.

## Conclusions

- Developing policies for post conflict reconstruction is unlikely to be straightforward. Need to carefully research individual countries when attempting to design policies for post conflict reconstruction.
- Need to determine:
  - the nature and causes of the conflict,
  - impact and effects,
  - characteristics of the actors
  - structure of the economy or what remains of it.
- Policies will also need to change as the country moves away from the immediate emergency period, to the development phase.
- Need to develop social and anti poverty programmes that go beyond the still narrow confines of structural adjustment.
- While the WB have become much less doctrinaire they still are loathe to consider alternative perspectives, but they do show more flexibility.
- But as Iraq shows there are still policy makers around who have learnt no lessons from the experience of the past