Africa's Recovery From Conflict: Making Peace Work for the Poor

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FOREWORD

Ending war and starting broad-based recovery are crucial tasks for the international development community. Nowhere is this more urgent than in Africa, which has seen devastation and human misery on an unprecedented scale. Communities have been displaced, and many poor people have lost control over their lives and livelihoods. Conflict has also undermined development strategies, eroding the capacities of state institutions to an alarming degree, while political uncertainty has deterred private investment, both domestic and foreign. The ability of unscrupulous leaders to ferment ethnic hatred has been facilitated by economic decline. Political turmoil has made it easier to plunder the continent's abundant natural resources.

This policy brief summarizes the results of a UNU/WIDER project on war and reconstruction in Africa directed by Tony Addison, which is now published as *From Conflict to Recovery in Africa*. As this study makes clear, peace is often elusive and economic policy can play a major role in supporting the efforts of those working at the national and international levels to build peace. Above all it is crucial to focus post-conflict policies on the needs of the poor, so that recovery is broad based in its benefits, and does not simply benefit a narrow elite.

These are difficult and complex issues, and this policy brief provides a timely and fresh perspective on how we can ensure that recovery is pro-poor. It will be read with interest by all those who are concerned with Africa and its future, and its policy recommendations are highly relevant to all the world's post-conflict societies.

Tony Shorrocks
Director, UNU/WIDER
February 2003

EXECUTIVE SUMMARY

Broad-based recovery is vital

The period 1990-2000 saw 19 major armed-conflicts in Africa, ranging from civil wars to the 1998-2000 war between Eritrea and Ethiopia. Peace has been elusive, and the term 'post-conflict' is often a sad misnomer.

Achieving peace has received much attention, but we should also take a closer look at the nature of post-conflict recovery. The end of war saves *lives*—including those of the poor who are often its main victims—but it may not deliver much if any improvement in *livelihoods*. War destroys the human and physical capital of the poor and it undermines the bonds of family and kinship that are central to the livelihoods of Africa's communities. These effects, together with the destruction of essential services and infrastructure, may so weaken the poor that they are unable to share in national recovery. Moreover, those who control the post-war state may be unable (or unwilling) to ensure that reconstruction benefits the majority. A narrow elite, sometimes including former warlords, may instead reap most of the gain; recovery's benefits will then be narrow rather than *broad based* in their distribution.

The UNU/WIDER study, *From Conflict to Recovery in Africa* (Oxford University Press 2003) looks at how to achieve a broad-based recovery from war using examples from Angola, Eritrea, Ethiopia, Guinea-Bissau, and Mozambique—all countries that have suffered terribly from conflict.

National actors must drive broad-based recovery

Unless communities rebuild and strengthen their livelihoods, then neither reconstruction nor subsequent growth will be broad based, and poverty will remain widespread and intense. But communities cannot prosper unless private investment recreates markets and employment; and the efforts of communities and the private sector will be hindered unless state institutions improve and public goods are provided. Aid donors, NGOs, and international business can help (or hinder) but success ultimately depends on the three national actors: *communities*, the *private sector*, and the *state*.

Community needs must be a focus of attention. War fractures communities, destroying human and social capital. But unless the state disintegrates completely, it is still possible to manage the wartime economy to contain poverty. And helping poor communities during wartime improves their prospects once post-conflict reconstruction begins. However, the necessary political commitment may be missing. Angola's government has achieved less for the poor than Mozambique's wartime government despite Angola's far greater resources (from oil).

Aid donors can do much to increase the resources available to meet the post-war needs of poor communities (through greater and faster debt relief, for example). But even so, there will be many demands on domestic and external resources, and therefore we must avoid 'wish lists'—long lists of everyone's favourite projects (which simply distort and overwhelm national capacities). Instead, there needs to be a focus on core priorities—those that give the most return to broad-based recovery—and considerable investment in the collection of information about the needs of communities and poor people (through household surveys and participatory poverty assessments). Moreover, this information must be embedded in the processes that formulate policies (for example in determining the allocation of public expenditures).

'Community' is a useful shorthand for discussing common problems. Nevertheless there is significant stratification (and conflict) within and between communities, and war accentuates social inequality. In Mozambique, households with access to the wartime shadow economy (such as the black-market in food aid) and connections to local-level elites gained and accumulated assets which facilitated their post-war recovery. In contrast, poorer households often fell further behind (losing land and livestock, for instance), thereby weakening their ability to participate effectively in reconstruction projects and to adapt to economic reforms.

Moreover, within communities women are often at a significant disadvantage in earning a living. In Eritrea, women suffered discrimination in the post-conflict job market and discrimination in access to land despite formal legal equality with men. In Mozambique, the incidence of poverty in households headed by women is often much higher than in male-headed households, and the human development indicators for Angola's women are much worse than those of men. This lack of human capital makes it difficult for women to participate fully in reconstruction and to take advantage of the new livelihood opportunities made available by economic reform.

Recovery depends on strong private investment

A rapid rebound from war requires strong and sustained private investment, both domestic and foreign. Investment by large private wholesalers in recreating grain markets was crucial to improving food-security in post-war Mozambique, for example. Foreign direct investment has also contributed to Mozambique's strong post-war economic growth.

The state must encourage private investment by providing macroeconomic stability and reforming the legal framework so that property rights are respected (including the rights of the poor who, as microentrepreneurs and smallholders, are themselves active in the private sector). Well-designed public investment can also do much to encourage ('crowd-in') private investment. One example is better telecommunications and road infrastructure for remote areas, which makes them more attractive to potential investors, and strengthens community livelihoods, for example.

At the same time as encouraging private investment, the state must regulate the private sector to protect the public interest. Prudential supervision of the financial system is one important example, and it must be a top priority when the financial system is recapitalized by encouraging the entry of private banks. In Mozambique the banking system was restructured and partly privatized, but the new banks have run into trouble and have had to be recapitalized again, partly using public money (which therefore becomes unavailable to fund core social priorities).

Unfortunately, instead of protecting the public interest, favouritism may dominate policy, resulting in narrow rather than broad-based reconstruction. Commercial alliances of state and private actors can result in market interventions that generate monopoly profits for influential elites to the cost of small enterprises and consumers (including the poor). Such is the case with Angola's *Empresários de confiança* (the 'few trusted enterprises'). And non-transparent privatization in Angola and Mozambique led to large asset transfers that sometimes favoured influential elites.

Democratic transition from a one-party state to multi-party politics is essential (it was a condition of Mozambique's peace agreement). The last decade has seen democratization advance across much of Sub-Saharan Africa (although the 1998-2000 Eritrea-Ethiopia war has endangered democratization in these two countries).

But despite its virtues, multi-party politics can degenerate into 'money politics'. Private contributions to winning parties can buy tax breaks, mineral concessions, media monopolies, regulatory capture, and the dilution of prudential bank regulation. Such concessions are against the public interest (and may benefit those who prospered from war and who have turned themselves into powerful peacetime politicians and businessmen).

Wealth can also be used to promote measures that are anti-poor, for example, concessions of valuable natural capital—land, fisheries, and forests—to influential commercial interests, leading to loss of access and livelihoods for communities. Meanwhile, economic reform has sometimes weakened groups such as trade unions that can act as countervailing powers to big business and new countervailing powers, such as an independent media, may be underfunded and harassed (recently the case in Mozambique and evident in Angola, Ethiopia, and Eritrea as well).

In summary, strong private investment is critical to recovery but the relationship between the post-war private sector and the state must be set within a framework that protects the public interest and defends the poor. This capacity can be weak when democratic institutions to oversee and protect the public interest are only just emerging (parliamentary committees to oversee public-sector budgeting and accounting, for instance).

Reform is critical to broad-based recovery

Countries attempting to move from conflict to recovery face a daunting range of tasks—including conflict resolution, peace enforcement, demobilization, and refugee resettlement (to cite just four priorities). Moreover, this reconstruction agenda interacts with the agenda of reform (both economic and political).

Post-conflict *reconstruction* is too often seen as a matter of simply *rebuilding* damaged infrastructure. But if recovery is to be broad based then *policies* must change as well. For instance, rebuilding rural infrastructure has low returns if policy continues to discriminate against smallholders (thus taxing their recovery and holding back poverty reduction).

Moreover, pre-war economic policy may have contributed to conflict, for example by discriminating against particular ethnic or religious groups (or regions) in the allocation of public spending on essential social services and development infrastructure. Public expenditure reform is therefore especially important in redressing the longstanding grievances that can degenerate into violence. All of this requires changes in *institutions* as well, for example investment in more effective and transparent mechanisms of taxation and budgetary management.

Economic reform should start soon after peace (indeed some countries such as Mozambique manage to start during war). But urgency must be tempered by the need to get reform right: badly designed and implemented reforms add to the war-induced misery of the poor (largely the case with Angola's chaotic reform process over the last decade). For instance, it is important to improve public expenditure management so that public money goes to core social priorities, but an unrealistic and excessively tight target for the overall fiscal deficit should be avoided when it endangers essential development spending (a task made easier if aid flows are generous). Likewise, recapitalization of the financial system through private investment should be balanced by equal attention to improving prudential financial regulation. Hence, the quality of state institutions is critical to making economic reform work for broad-based recovery.

Without broad-based recovery, conflict will return

The UNU/WIDER study argues that changing economic policies that favour only a narrow elite (or one group over another)—and which also harm the poor—is crucial to achieving a broad-based recovery from conflict. When bad policies have inflamed grievance, their reform will increase the chances of a peace deal holding. Broad-based recovery provides a better climate for domestic (and international) peace-builders to do their work, and to win the argument against demagogues.

But this is not to argue that broad-based recovery can necessarily always achieve peace. Those who profit from war may be willing to rip up any peace deal and return to the battlefield when political and economic reforms threaten their interests (a real danger in resource-rich countries such as Angola). There is no single lever that can be pulled to achieve peace: a focus on broad-based recovery must be accompanied by resolute efforts to tackle those who profit from war, and those who finance them.

Transformation, rather than reconstruction, is the watchword for broad-based recovery

To conclude, if resources are available, then rebuilding shattered infrastructure is a reasonably straightforward task. Reassembling pre-war institutions may not be too difficult either. But it is a lot harder to *transform* institutions and policies, especially when these favour one social group over another. Yet unless this is done, recovery will be narrow rather than broad in its benefits, poverty will remain high, and conflict is likely to return.

Key messages in *From Conflict to Recovery in Africa*

- The end of war saves *lives*, but peace does not guarantee better *livelihoods* for the poor, and they may be too weak to share in national recovery
- Unless communities are helped to rebuild and strengthen their livelihoods then neither reconstruction nor growth will be broad-based
- Reducing discrimination against women and improving their human capital raises their participation in reconstruction
- Increased private investment is essential to recovery, but the public interest must be protected by regulating the private sector
- If recovery is to be broad-based then economic policies must be reformed, particularly discriminatory policies that inflame grievances
- The quality of state institutions is critical to making economic reform work for broad-based recovery

INTRODUCTION

Africa has become synonymous with conflict. The period 1990-2000 saw 19 major armed-conflicts in Africa, ranging from civil wars to the 1998-2000 war between Eritrea and Ethiopia. Moreover, peace is often fragile, making it difficult to apply the term 'post-conflict' to many countries. War can reoccur after a period of 'disturbed' peace (for example, Angola and Sierra Leone), localized rebellion often continues following a regime change (the Democratic Republic of the Congo), cross-border insurgency poses a constant risk (Rwanda and Uganda), and 'post-conflict' countries are often characterized by widespread violations of human rights. There is little chance for sustained and pro-poor development in Africa while this tragedy continues.

Broad-based recovery is vital, but reconstruction too often favours a narrow elite

Moving from conflict to recovery is imperative, but how is this to be done? To begin, we must recognize that at least two objectives exist. First there is *peace*: the end of widespread and continuing violence. Second, there is *broad-based recovery* that improves the incomes and human development indicators of the majority of people, especially the poorest.

Achieving peace has rightly received much attention. But broad-based recovery does not inevitably follow from peace. Peace may follow the decisive victory of one warlord over all others, but little may be done to help the majority of the population recover, and a narrow elite may instead reap most of the benefits. Similarly, belligerent nations may eventually make peace, but most people may be too weakened by war to share in the recovery (with the poorest being left behind). Again, the benefits of recovery will be narrow rather than broadly distributed.

The UNU/WIDER study *From Conflict to Recovery in Africa* focuses on this second objective: how to achieve a broad-based recovery from conflict.

Angola, Eritrea, Ethiopia, Guinea-Bissau, and Mozambique were devastated by conflict together with economic and political turmoil

Angola, Guinea-Bissau, and Mozambique experienced chaotic transitions from colonial rule: Angola then slid into an on-off civil war that lasted until early 2002; Guinea-Bissau experienced a short but vicious rebellion by the army in 1998; and Mozambique went through a 16-year civil war before peace was achieved in the early 1990s. In the 1970s and 1980s both Angola and Mozambique were attacked by apartheid South Africa and both were caught up in the cold war, as was the Horn of Africa. In Ethiopia, the feudalism of the country's monarchy was replaced by the despotic rule of the Derg, which was finally overthrown in the early 1990s (leading to Eritrea's independence). Peace was then shattered by the Eritrea-Ethiopia war of 1998-2000.

The countries selected for the UNU/WIDER study are therefore at different stages in their recovery from conflict (and at different stages in economic reform and democratization): Mozambique has made the most economic and social progress, with sustained growth since 1994; recovery has restarted in Eritrea and Ethiopia after being knocked off course by the 1998-2000 war; and Guinea-Bissau has achieved a measure of political stability after the turmoil of the late 1990s. Angola may finally be at peace, but it will take years of hard work to ensure that the new peace agreement sticks, and does not go the way of previous (failed) agreements. These countries and their common histories yield important lessons—not only for Africa, but for conflict-affected countries across the world.

National actors must drive broad-based recovery, and international actors can help (but sometimes hinder)

To explore how societies move from conflict to recovery the UNU/WIDER study is organized around the issues facing *national* actors—specifically *communities*, the *private sector*, and the *state*—and the interactions between them. Thus unless communities rebuild and strengthen their livelihoods, neither reconstruction nor subsequent growth will be broad based. But communities cannot prosper unless private investment recreates markets and generates more employment. And neither communities nor the private sector can realize their potential without a development state—one that wields legitimate power and is dedicated to broad-based recovery.

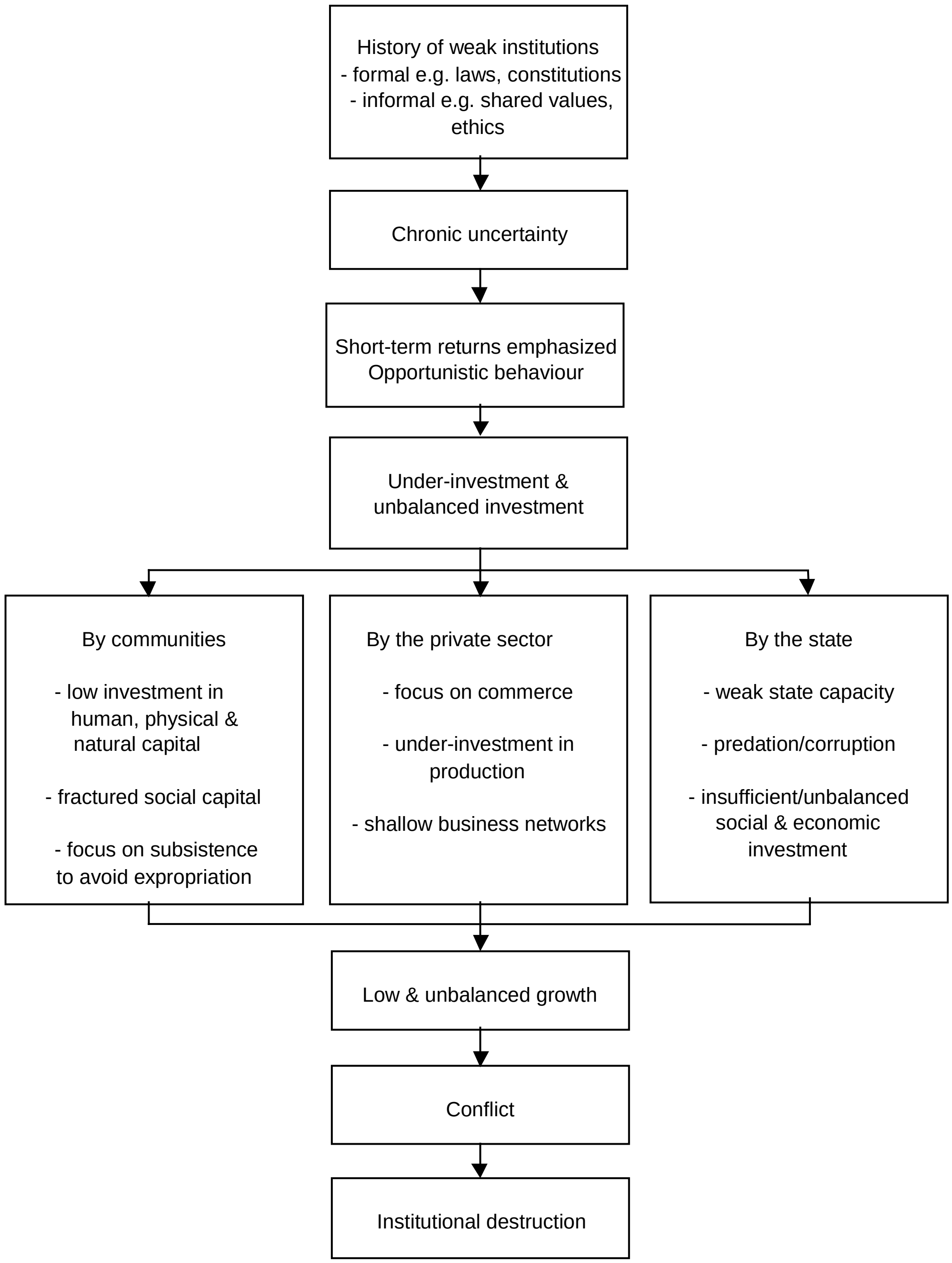
The focus of the UNU/WIDER study on the leading role played by national actors does not imply that the international dimension is unimportant. Far from it, international actors can help (or hinder): aid donors can assist through better peacekeeping, more aid, and accelerated debt relief; international business can assist through more foreign direct investment, bringing much needed capital and skills; international NGOs can assist by rapidly meeting emergency needs, strengthening community livelihoods, and by reinforcing the voice of the poor. But even if these are in place, recovery may still be too narrow in its benefits—or fail entirely—if communities, the private sector, and the state remain weak. Strengthening the capacities of national actors is therefore essential for international assistance to work well.

War and bad policy undermine institutions, and the resulting uncertainty impedes recovery

Many of Africa's conflict countries have histories of political and institutional turmoil, which have severely distorted the actions of national actors—opportunistic behaviour has often come to dominate longer-term considerations. This is particularly evident in state institutions where corruption, together with war-profiteering, often replaces long-term planning and considerations of the national interest. But it also occurs in communities where the breakdown of informal institutions has created high levels of uncertainty leading to a retreat into subsistence and the degradation of the natural capital—soils, forests, and fisheries—upon which community livelihoods depend in the long-term. And high levels of uncertainty have led the private sector to focus on commerce rather than on long-term investment in production, since the latter is much more vulnerable to predation. High uncertainty and institutional decline have magnified the effects of war itself in causing economic downturn, which has then contributed to further conflict and institutional destruction (see Figure).

Figure

Weak institutions lead to conflict lead to further institutional destruction



COMMUNITIES, PRIVATE SECTORS AND STATES

Strategies must focus on the essential needs of the poor

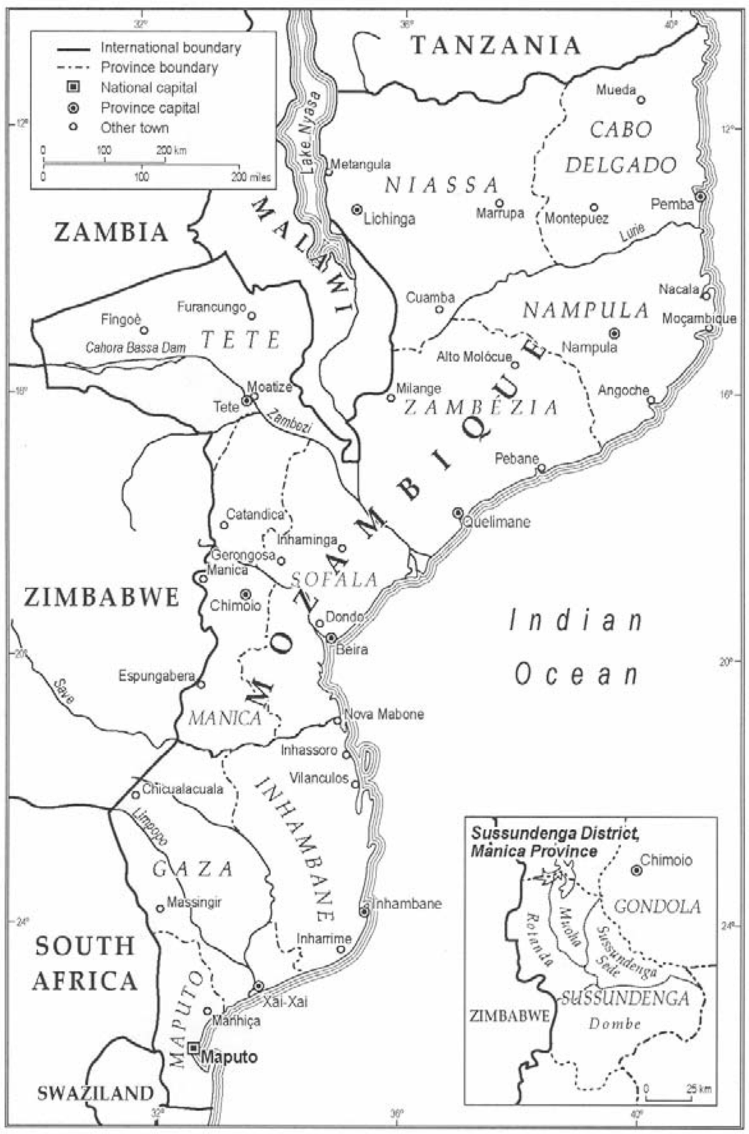
War fractures communities, destroying human and social capital. But unless the state disintegrates completely, it is still possible to manage the wartime economy to contain poverty. Helping poor communities during wartime improves their prospects once post-conflict reconstruction begins. However, the necessary political commitment may be missing. Angola's government has achieved less for the poor than Mozambique's wartime government despite Angola's far greater resources (from oil).

Aid donors can do much to increase the resources available to meet the post-war needs of poor communities (the recent acceleration in debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative promises to increase public spending on essential social provisions, for example). But even so, there will be many demands on domestic and external resources and therefore we need to avoid 'wish lists'—long lists of everyone's favourite projects (which simply distort and overwhelm national capacities). Instead, there needs to be a focus on core priorities—those that give the most return to broad-based recovery—and considerable investment in the collection of information on the needs of communities and poor people. Household surveys and participatory poverty assessments have been conducted in Mozambique since the end of the war, and this must be priority for Angola as well (particularly in the most war-ravaged rural areas). Timely information on poverty should also be embedded in the institutional processes that formulate policies—for example in determining the allocation of public expenditures—as well as in the arena of political debate (in regular briefings of parliamentarians and the media, for example).

'Community' is a useful shorthand for discussing common problems, nevertheless there is significant stratification (and conflict) within and between communities (the Rwandan genocide is the most tragic example). War also accentuates social inequalities, not only in incomes but also in human development indicators. In Mozambique, for example, households with access to the wartime shadow economy (such as the black-market in food aid) and connections to local-level elites gained and accumulated assets which facilitated their post-war recovery. In contrast, poorer households often fell further behind (losing land and livestock, for instance), thereby weakening their ability to participate effectively in reconstruction projects and to adapt to economic reforms. In Angola the gap between rich and poor must start to close if the country is to begin to overcome the dramatic rise in social exclusion generated by over twenty five years of war.

Moreover, within communities women are often at a significant disadvantage in earning a living. In Eritrea, women suffered discrimination in the post-conflict job market and discrimination in access to land despite formal legal equality with men (and despite playing a major role in the military forces that fought for independence).

In Mozambique, the incidence of poverty in households headed by women is often much higher than in male-headed households; in the Manica region 47.1 per cent or so of female-headed households are poor, compared with 38.9 per cent of male-headed households (see map below). In Angola, the human development indicators for women are much worse than those for men; in the capital, Luanda, 71 per cent of females are illiterate compared with 44 per cent of males. Ethiopia has similarly serious gender inequalities that it must overcome. This lack of human capital makes it difficult for women to participate fully in reconstruction and to take advantage of the new livelihood opportunities made available by economic reform (in export agriculture, for example).



Recovery depends on strong private investment

A rapid rebound from war requires strong and sustained private investment, both domestic and foreign. Investment by large private wholesalers in recreating grain markets was crucial to improving food-security in post-war Mozambique, for example. This activity has improved the efficiency of the national grain market and reduced consumer price margins, a benefit particularly for food-deficit and poor households. foreign direct investment has also contributed to Mozambique's strong post-war economic growth, and the 1990s saw foreign investments in several large industrial projects as well as in the tourism and agricultural sectors.

The state can encourage private investment by providing macroeconomic stability; Ethiopia has had considerable success in this regard, and Mozambique managed to significantly reduce the very high inflation that prevailed at the end of the war (in contrast, Angola has experienced prolonged periods of hyperinflation, particularly in the prices of basic commodities, that have worsened poverty). Reforming the legal framework so that property rights are respected is also important; this includes the rights of the poor who, as microentrepreneurs and smallholders, are themselves active in the private sector. Well-designed public investment can also do much to encourage ('crowd-in') private investment. Better telecommunications and road infrastructure for remote areas make them more attractive to potential investors, and strengthens community livelihoods, for example. Remote area often have deep poverty, and they must be given priority in public investment decisions.

While encouraging private investment, the state must also regulate the private sector to protect the public interest, and the interests of poor communities

Prudential supervision of the financial system is vital for example, especially when the financial system is recapitalized by encouraging the entry of private banks. In Mozambique the banking system was restructured and partly privatized in the early years of reconstruction, but the new banks have run into trouble and have had to be recapitalized again, partly using public money (which therefore becomes unavailable to fund core social priorities). Distress in the financial system is common to post-conflict countries and undermines private investment both by limiting the supply of loanable funds and by causing macroeconomic instability.

Instead of protecting the public interest favouritism may dominate policy, resulting in narrow rather than broad-based reconstruction. For example, commercial alliances of state and private actors can result in market interventions that generate monopoly profits for elites at the cost of small enterprises and consumers (including the poor). Such is the case with Angola's *Empresários de confiança* (the 'few trusted enterprises'). Privatization can sometimes be manipulated to transfer valuable assets to elites as well; such non-transparent privatization has occurred in both Angola and Mozambique.

Democratic transition from a one-party state to multi-party politics is essential—it was a condition of Mozambique's peace agreement. The last decade has seen democratization advance across much of Sub-Saharan Africa (although the 1998-2000 Eritrea-Ethiopia war has endangered democratization in these two countries, and elections in Eritrea have again been delayed).

But despite its virtues, multi-party politics can degenerate into 'money politics'. Private contributions to winning parties can buy tax breaks, mineral concessions, media monopolies, regulatory capture, and the dilution of prudential bank regulation. Such concessions are against the public interest and may benefit those who prospered from war and who have turned themselves into powerful peacetime politicians and businessmen.

Wealth can also be used to promote measures that are anti-poor: for example concessions of valuable natural capital—land, fisheries, and forests—to influential commercial interests, leading to the loss of access and livelihoods for communities. Meanwhile, economic reform has sometimes weakened groups such as trade unions that can counteract the power of big business. New countervailing powers, such as an independent media, may be underfunded and harassed (Carlos Cardoso, an independent Mozambican journalist, was assassinated while investigating fraud in the country's financial system).

In summary, strong private investment is critical to recovery but the relationship between the post-war private sector and the state must be set within a framework that protects the public interest and defends the poor. This capacity may be weak when democratic institutions to oversee and protect the public interest are only just emerging (parliamentary committees to oversee public sector budgeting and accounting, for instance).

RECONSTRUCTION AND REFORM

Getting pro-poor priorities into the design of reconstruction and reform

Conflict, be it civil war or war between states, has many destructive effects. How these are dealt with during war and in the early years of peace determines whether recovery is broad or narrow. The destruction of physical and human capital together with infrastructure obviously raises issues of priorities: what is to be rebuilt first, and who are the main beneficiaries of the chosen priorities? For example, is household capital and the infrastructure of poor smallholder communities a top priority, or will infrastructure serving high-income urban neighbourhoods come first? Priority-setting for reconstruction is discussed throughout the UNU/WIDER study, using examples from Angola, Guinea-Bissau, Eritrea, Ethiopia, and Mozambique.

Countries attempting to move from conflict to recovery face a daunting range of tasks—everything from conflict resolution to peace-enforcement to demobilization to shifting public money from the military and into development (to cite just four priorities). Moreover, this reconstruction agenda is often accompanied by, and interacts with, the agendas of both economic and political reform. Economic reform leads to changes in public spending, relative prices and market opportunities, which can profoundly affect livelihoods and access to essential services (in good ways if well-designed, in bad ways if the poor are not given priority). And the political landscape may change profoundly once a peace agreement is achieved. National actors therefore have much to adapt to.

The reconstruction agenda includes building peace and securing political stability, recreating or strengthening the basic functions of state administration, resettling refugees together with internally displaced persons (IDPs), demobilizing combatants, and rebuilding essential economic and social infrastructure. The reform agenda has both political and economic elements. Political reform may include rewriting the constitution, the introduction of multi-party competitive elections, and the decentralization of political power. In principle, economic reform can refer to any change in economic policy, not just to the type of reforms favoured by the Bretton Woods institutions (BWIs) (the IMF and World Bank). Specific actions include public expenditure reform (changing the allocation of public money and its management), revenue reform (changing the origin and methods for collecting taxes and other revenues), trade and currency reform (altering the structure of import tariffs and quotas as well as policy towards the foreign exchange market), financial sector reform (adjusting controls on lending and borrowing by the financial system together with the institutions of financial supervision), and sector reforms (changing policies for agriculture, industry, energy, and utilities). It goes without saying that the reconstruction and reform agendas are highly controversial and, in the case of economic reform, their design has been intensely debated for years.

Sequence pro-poor economic reforms as early as possible, and pay close attention to early public expenditure reform

Because the reconstruction and reform agendas are so large, the question inevitably arises: which elements should be sequenced first? Obviously there are many elements of the reconstruction agenda that are urgent and immediate priorities, including demobilizing combatants and caring for refugees and IDPs. Some early political reforms are also needed to increase the likelihood of peace—a timetable for multi-party elections for example—while others might be left for later when some measure of trust has been established between former belligerents. All of this requires considerable political finesse on both the part of national political actors and the international community.

Sequencing the economic elements of the reform agenda is equally tricky. A common argument is that these should wait until reconstruction is well under way. This view is often linked to a periodization whereby a reconstruction phase is said to cover the first two to five years which, if it succeeds in stabilizing the political situation, can then be followed by a second phase during which economic reforms are implemented to secure human development and economic growth (and with humanitarian assistance dominating the first phase and deeper poverty reduction taking centre stage thereafter). Relatedly, it is often argued that economic reform will in some way undermine the chances of political settlement: political leaders can only afford to embark on economic reform once they have secured peace and a measure of social stability.

There is some merit in this perspective, as it does at least begin to highlight the priorities. And it is evident at the operational level in the activities of the international community: the UN agencies are often more active in supporting the first phase (reconstruction) than the BWIs, while the reverse is usually the case in the second phase (reform). Much also depends on how far war has damaged a country's institutional capacities.

It is certainly true that implementing some economic reforms will take time, especially those that are very intensive in the institutional and human resources which are at a premium in the early years of peace. For instance, the need for better financial-sector supervision may be recognized early, but building the necessary central-bank expertise will usually take considerable time. Moreover, politicians may understandably wish to delay policy changes that have unacceptably high political risks—even if such reforms will ultimately deliver greater economic efficiency and better poverty reduction (replacing a general wartime food subsidy with better targeted food or cash transfers may fall into this category).

Nevertheless, the argument that economic reform is best kept for a second phase after reconstruction is often taken too far. For a start, it is unrealistic. Economic policy-making does not remain 'on hold' during wartime or in the early years of peace. Unless the state and its authority collapses entirely then the economic exigencies associated with conflict force policy responses, and these can be either good or bad for poverty reduction and human development. These exigencies typically include the balance of payments crises associated with the wartime contraction in foreign exchange earnings and the fiscal crises associated with the downturn in tax revenue as conflict reduces the level of economic activity and therefore the tax base.

More fundamentally, well-designed economic reforms raise the chances that recovery will be broad based, instead of narrow, in its benefits. Separating economic reform from reconstruction is therefore not only unrealistic, it is undesirable as well. To see why, consider public expenditures, and specifically the money spent on reconstruction. In every conflict country, there are strong institutional (and political) biases towards recreating what was destroyed, but what was destroyed may well have been inferior from the perspectives of poverty reduction and human development (for example, rebuilding the infrastructure that served large agricultural estates rather than investing in building entirely new infrastructure for smallholders). A thorough examination of public spending priorities and how public money is collected and managed is imperative otherwise the resources released from reduced military spending will be wasted and the additional resources from reconstruction aid will not be effective. The earliest possible start must therefore be made on public expenditure reform.

Mozambique managed to make considerable, and early, progress in public expenditure reform with the result that resources have shifted increasingly to essential pro-poor services and this has in turn assisted the country's qualification for debt relief under the HIPC Initiative. In contrast, there remain considerable uncertainties about where the money from Angola's state oil revenues goes, and the public expenditure system in Angola is not geared to poverty reduction, leaving the onus on helping the poor to NGO and bilateral donor projects which, while largely effective, are small compared to the potential for using the country's ample resource revenues for poverty reduction.

Secure the property rights of the poor, and reform policies that hold back the livelihoods of poor communities

Similarly, property rights—especially the rights of poor communities to natural capital (land, forests, fisheries, etc.)—must be strengthened quickly through tenure reform, otherwise the poor lose out to the wealthy and powerful in the land-grab that occurs in the immediate years of peace, and they fail to recover the natural capital that they lost to predators in wartime. Mozambique demonstrates the importance of land tenure to the poor, and this is becoming a big issue in post-war Angola.

Moreover, the domestic and aid resources used in rebuilding infrastructure and services will have low returns if policies that hold back the livelihoods of smallholders and microentrepreneurs are retained. A thorough and early reconsideration of sector policies—especially towards agriculture which is the main livelihood of many of the poor—is therefore needed, a point that also applies to macroeconomic policy which has powerful economy-wide effects. When these effects are negative for the incomes and employment of the poor, they can more than offset the good work of local livelihood-projects.

Well-designed economic reform can strengthen the political settlement, badly-designed economic reform can undermine it

Post-conflict political settlements are fragile and need to be supported by good economic policy. Policies that encourage an early resumption of economic growth can create the civilian employment necessary to absorb demobilized combatants. Economic growth also raises the tax base which, together with early attention to tax reform, can provide the increased public revenues necessary to match donor aid flows in rebuilding essential public services and infrastructure for the poor. Early public expenditure reform is very important. A fairer allocation of public spending (and taxation) across regions and ethnic groups can begin to redress some of the deep social inequalities that often characterize the pre-war pattern of public infrastructure and services—inequalities that may have fed grievances and conflict itself.

By raising national income, pro-growth policies can dampen the economic grievances that are open to exploitation by unscrupulous political leaders. To ensure that this happens, policymakers must pay close attention to the regional pattern of growth, and to the involvement of the poor in the growth process—by securing their property rights and by building their human capital so that they can get access to the jobs and livelihoods created by growth. Mozambique has achieved high growth in the last few years, but more growth is needed in the disadvantaged rural areas where political discontent is rising.

Badly designed policy-change—for instance an over-restrictive target for the fiscal deficit—can be deflationary, thereby reducing employment and income growth. A weak economy that generates limited income-opportunities leads to rising (and increasingly violent) competition for a share of the shrinking social pie. The young unemployed can then be a fertile recruiting ground for those intent on stealing national wealth (a real risk in post-conflict Angola and Guinea-Bissau). Over-restrictive fiscal policy can also impede the provision of recurrent government funding to match donor investment in essential services and infrastructure (a problem in the design of the first IMF-supported stabilization programmes in Mozambique).

In summary, there is only a limited chance for broad-based recovery and growth if policies that impede poverty reduction are not changed during the reconstruction phase (and during war itself, if circumstances permit). Accordingly, while some economic reforms (and some political reforms) might be delayed until after politicians have secured peace and national unity through reconstruction efforts, it is unrealistic (and undesirable) to view the transition from conflict to recovery as separated into a distinct phase of reconstruction followed by a phase of reform. Indeed, when the two are compartmentalized in this way what may well result is not a broad-based recovery in which the poor benefit the most, but a *narrow* recovery in which an elite (sometimes consisting of those who profited from war) strengthens its position while poor communities stagnate, or fall further behind.

CONCLUSION: WITHOUT BROAD-BASED RECOVERY, CONFLICT WILL RETURN

Broad-based recovery reduces, but never eliminates, the threat of conflict

Broad-based recovery can help in securing peace by reducing grievances. Grievances typically start to ferment when one or more socioeconomic groups (defined by ethnicity, region, religion, or some combination of these characteristics) experiences a fall in its standard of living in either *absolute* terms, or *relative* to another group. Grievance is often the product of policies that favour a narrow minority, typically widening inequality in incomes and access to essential services. Stable societies are those that successfully direct grievance into non-violent channels for both its expression and resolution, and over time most people come to respect these informal and formal institutions (or 'rules of the game' in the terminology of the new institutional economics). But when institutions are weak—and many African countries inherited weak institutions at independence—grievance takes on an increasingly violent character and the social contract that underpins peace can be fatally weakened.

Accordingly, the UNU/WIDER study argues that changing economic policies that favour only a narrow elite (or one group over another)—and which also harm the poor—is crucial to achieving a broad-based recovery from conflict. When bad policies have inflamed grievance, their reform will increase the chances of a peace deal holding. Broad-based recovery provides a better climate for domestic (and international) peace-builders to do their work, and to win the argument against demagogues.

But we should not assume that broad-based recovery can necessarily always achieve peace. Those who profit from war may be willing to rip up any peace deal and return to war when political and economic reforms threaten their interests. For example, a transparent system of managing public expenditures is essential if more money is to be released for essential pro-poor services, but this can cut against the personal wealth of those in power. This is especially the case in resource-rich countries, where oil, diamonds or other natural wealth provide ample rewards. There is no single lever that can be pulled to achieve peace: a focus on broad-based recovery must be accompanied by resolute efforts to tackle those who profit from war, and this needs international action—on money laundering, blood diamonds, and the arms trade.

Transformation, rather than reconstruction, is the watchword for broad-based recovery

If resources are available, then rebuilding shattered infrastructure is a reasonably straightforward task. Reassembling pre-war institutions may not be too difficult either. But it is a lot harder to transform institutions and policies, especially when these favour one social group over another. Yet unless this is done, recovery will be narrow rather than broad in its benefits, poverty will remain high, and conflict will almost certainly return.

LIST OF CHAPTERS
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Editor: Tony Addison

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