Post-Conflict Recovery: How Should Policies be Distinctive?

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1. Introduction

Should post-conflict economic policies be distinctive? Evidently, policies need to differ according to national circumstances, but is there anything that is systematic about the post-conflict situation which implies that as a group post-conflict countries will tend to need policies that differ from those of countries that are identical other than not having had a recent conflict?

In one sense the way that I have posed the question is already loaded against distinctiveness. That is because one of the key ways in which post-conflict countries differ from most other developing countries is that they inherit economic policies that are highly dysfunctional. Of course, dysfunctional economic policies are not confined to post-conflict countries: Zimbabwe, which has been at peace for nearly thirty years, has recently descended into policies that are in some respects even worse than most post-conflict legacies. However, there is a straightforward reason to expect that countries emerging from conflict will have atypically dysfunctional policies: during civil war governments usually get desperate. In economic terminology, their discount rate increases and this leads to a predictable change in priorities. The fiscal position typically deteriorates as the tax base declines, while spending needs for the army escalate, inducing resort to some combination of debt, inflation, and costly forms of taxation. For example, Adam, Collier and Davies (2006) show that during civil war governments systematically resort more heavily to inflationary finance. The composition of spending also typically deteriorates, with public investment and social spending cut to make room for military and patronage expenditures.

Allowing that post-conflict countries typically emerge from war with a legacy of unusually bad economic policies, should priorities for policy reform post-conflict be any different from those of countries such as Zimbabwe, peaceful but with equally poor policies? In this paper I will suggest that policies indeed probably need to be distinctive for two overarching reasons. One is that the risk of further conflict is considerably higher in post-conflict societies than in other societies. Hence, bringing this risk down becomes the over-riding priority and this rebounds on policy choices. The other is that the economic consequences of conflict create both constraints and opportunities that are distinctive.

In Section 2 I address the challenge of securing the peace. Economic policies turn out to be important as a means of building peace, but they are effective only in the longer term and so need to be complemented by other policies that maintain the peace in the interim. Overall, I argue that too little attention is typically paid to economic reform relative to issues of political design. In Section 3 I turn to the politics of economic reform, arguing that the post-conflict period is likely to be a window of opportunity for change. In Section 4 I turn to the distinctive features of the real economy. For example, I focus on one important yet neglected issue, the potential bottleneck constituted by a withered construction sector, and how it can be overcome. In Section 5 I turn to government revenue and expenditure. Typically, in the post-conflict situation the government is acutely short of revenue, but some forms of revenue-raising are highly undesirable. Further, the pressing needs for public spending are liable to collide with acute constraints on the capacity to spend money effectively: the government may need to adopt new organizational forms for administering public spending. Section 6 concludes.

2. Distinctive objectives: reducing the risk of conflict

Post-conflict societies face an alarmingly high risk of reversion to conflict. The typical developing country that has been at peace for a long period has a risk of descending into large-scale violence of around 9% over the period of a decade (Collier, Hoeffler and Rohner, 2007). By contrast, based on an analysis of 66 post-conflict experiences, Collier, Hoeffler and Soderbom (forthcoming) estimate the risk facing the typical post-conflict society during its first decade of peace at 40%. Since the consequences of violent conflict are enormous, the government's first priority should evidently be to endeavour to reduce these risks. Thus, one important issue for economic policies during the post-conflict period is how they affect the risk of reversion to conflict. Subsuming this issue is the larger one of how much attention should be given to economic policies relative to other policies. The capacity of the society to focus on policy at all may be severely limited: how much time should political leaders devote to economic issues relative to security policy and political and constitutional architecture, which are liable to be the two major claims on attention?

Collier, Hoeffler and Soderbom (forthcoming) find evidence that the economy matters for peace. They estimate a hazard function of post-conflict risks, year-by-year during the post-conflict decade and find that economic recovery substantially contributes to risk reduction. Benchmarking on the 40% for the typical post-conflict society, they compare two otherwise identical societies which differ only in their growth rates. One is stagnant and the other sustains 10% growth through the decade, a rate which though high has been attained in several post-conflict societies because of the scope for rapid recovery. They do not fully address the problem of the endogeneity of growth to the risk of conflict reversion, simply instrumenting the growth rate by its lagged value. However, the importance of growth for risk reduction in Africa is not in dispute since the innovative study by Miguel et al. (2004) which, using rainfall shocks as an instrument for economic growth, showed that in Africa the risk of civil war was strongly increased by low growth.

There are various routes by which growth might affect the risk of violence, but a likely route is through employment. Rebellions are highly specialised in their recruitment, being dependent almost entirely upon young men. A minority of young men have a predisposition towards violence and these people form the base for the reversion to conflict. For example, the share of young males in the population is found to be one of the major risk factors explaining conflict (Collier, Hoeffler and Rohner, 2007). Taking a society with characteristics at the mean of developing countries, they find that if the proportion of young men in the population is doubled the risk of civil war is increased from 4.7% to 31%.

How might the government be able to reduce the risks coming from this group? One drastic strategy is repression. For example, the government of Eritrea maintains conscription of almost the entire youth population of the country, ostensibly due to the threat from Ethiopia, but perhaps also motivated by the need to contain potential opposition. Quite apart from the inherent undesirability of repression, such a policy of mass conscription is extremely expensive since it wastes a large pool of labour. At the other extreme from repression, post-conflict governments sometimes attempt to reduce risks through social spending. While this approach has much to commend it, it is unlikely directly to reach young males since this group are not heavy users of social services. For example, a study of recruitment of young men to violence in the Delta region of Nigeria finds that variation in recruitment between districts is unrelated to variations in social provision (Oyefusi, 2007). A more effective strategy may be to counter youth unemployment: if unskilled young men can be employed, they are less likely to be recruited into violence. Indeed, the link through employment may account for why growth is so effective in bringing down risks.

Not only is economic recovery important in an absolute sense for risk reduction, it also looks important relative to the other strategies available to a post-conflict government. Neither democracy in general, nor elections in particular, appear to reduce post-conflict risks. Indeed, if anything they appear to increase risks.

The usual reaction of governments is to maintain their own military spending during the post-conflict decade at levels much closer to wartime than to peace. Collier and Hoeffler (2006) investigate whether this strategy is effective. Because military spending is evidently endogenous to the risk of conflict they instrument for it using variables such as measures of external threats which influence military spending but not the risk of rebellion (Collier and Hoeffler, 2007). They find that far from military spending being effective as a deterrent, in post-conflict circumstances it actually significantly and substantially increases the risk of further conflict. This adverse effect of government military spending on the risk of conflict is distinctive to post-conflict situations. Developing a simple model of signalling, they argue that a high level of military spending may inadvertently signal to the rebels that the government intends to renege on promises of being inclusive, inducing the rebels pre-emptively to revert to conflict before their military capability withers away. An implication is that a post-conflict government should aim to downsize the military rapidly and substantially: the key African example of this process and its manifest success is Mozambique.

Although if rapid economic recovery can be achieved it brings risks down, the process is slow: only by the end of the post-conflict decade does even rapid growth cumulate to a substantial reduction in risks. In the meantime there is a need for some other policy to keep the peace. On the above evidence, neither the policy of democratization nor that of high military spending is able to meet this need. The remaining potential instrument for maintaining the peace during the period of danger is the presence of peacekeeping forces. Using new data on United Nations peacekeeping forces, Collier, Hoeffler and Soderbom, (forthcoming) find that expenditure on peacekeeping significantly and substantially reduces the risk of conflict reversion. This result is subject to qualification since they can find no satisfactory instruments for the scale of peacekeeping and it is likely to be endogenous to conflict risks. However, this limitation is unlikely to invalidate the results. First, they include a dummy variable for the presence of peacekeeping forces alongside the amount spent, and find that while it is significant, the presence of peacekeeping forces is associated with an *increase* in the risk of renewed conflict. This suggests, plausibly enough, that peacekeepers are sent to the more dangerous situations so that the failure to allow for endogeneity would bias downwards the estimated effectiveness of peacekeeping. Further, in their study of peacekeeping forces Doyle and Sambanis (2006) find that the number of peacekeeping troops sent is the result of a political decision within the Security Council that is subject to so many influences that it may not be unreasonable to model it as random with respect to actual security risk.

Hence, the recipe for the effective reduction of post-conflict risks is a combination of economic recovery and external peacekeeping, both sustained through the first decade. These are likely to be mutually reinforcing. The reduction in risk achieved by economic recovery is a more well-founded 'exit strategy' for peacekeeping than political 'milestones' such as elections. Conversely, the commitment to maintain peacekeeping throughout the first decade can be expected to reassure potential investors and so accelerate economic recovery.

3. Distinctive Political Opportunities

As discussed above, post-conflict situations inherit a legacy of very poor economic policies and governance. They are by no means the only countries with such problems but they differ from 'fragile states' at peace, in that the political context for reform is more favourable.

Chauvet and Collier (2006) analyze the political economy of reform, starting from 'fragile state' conditions, both post-conflict and peaceful. They hypothesize that even though reform is good for the society it might be blocked by one or other of three impediments. One is if power lies with an elite which would lose from reform. The second is if, despite the society being sufficiently democratic for decisions to be determined by the preferences of ordinary citizens, they are so poorly informed about the pay-off to reform that they oppose it even though in reality they would benefit. The third is if decision-takers would like to adopt reforms, but the society, and in particular the civil service, lacks the capacity to implement change on the ground. They build empirical proxies for these constraints and investigate whether collectively and individually they block reform. They indeed find that the proxies for binding constraints collectively significantly retard reform. Further, there is evidence that there are situations in which each one of the three is the binding constraint.

How important might we expect the three potential constraints to be in post-conflict situations? The divergence of elite interests is arguably likely to be less of a problem in post-conflict situations than in peaceful situations of poor policy and governance. Conflict and the transition to peace may have weakened vested interests, introducing the possibility of change. Further, Collier and Hoeffler (2004) find that the pay-off to reform in terms of economic growth is atypically high in post-conflict situations. Hence, elites are likely to have a greater interest than usual in reform, and a reduced ability to block it. In many post-conflict situations the government is required by donors to hold elections, so that citizens may have more influence than usual, so that the extent of their understanding of policy and governance may be atypically important. Paradoxically, a legacy of conflict may be that citizens better appreciate responsible governance, or at least want change rather than maintenance of the status quo. Hence, in post-conflict both of these potential constraints may be less likely to be binding. However, the third possible constraint, the capacity of the society to implement policy change, is even more likely to be binding after a civil war than in other fragile states. A legacy of civil war is usually that the civil service deteriorates, partly because the society loses skills. A possible exception may be in the relatively rare cases in which the civil war ends as a result of victory for the rebel group. Those rebel groups that are victorious will tend to be atypically competent and so may be able to implement reform. In Africa the clearest example of competent rebels-turned-government are the early post-conflict years in Rwanda.

The implied political economy of reform in post-conflict societies is of a relatively high degree of political willingness to reform, limited by an usually low capacity to implement it. This is consistent with the empirical finding that episodes of reform are more likely to be initiated in post-conflict situations, but that any particular incipient reform is less likely to be sustained through to decisive change (Chauvet and Collier, forthcoming).

Perhaps as a result of the atypically favourable political opportunities, reform is often rapid during the post-conflict decade. Collier and Hoeffler (2004) measure policies and governance with the Country Policy and Institutional Assessment (CPIA) of the World Bank. On average during the first post-conflict year the CPIA is very low, at 2.41, but it improves rapidly during the decade, reaching 3.05 by its end, slightly above the average for all low-income countries. This improvement contrasts with other low-income countries with poor policies and governance: Chauvet and Collier (forthcoming) model the chances of improvement in policies and governance in contexts other than post-conflict and find that the mathematical expectation of the time taken to achieve decisive and sustained reform is around sixty years.

4. Distinctive Economic Opportunities

If, as suggested in Section 3, the political context for reform is unusually favourable but the capacity to implement reform is unusually limited, then it is particularly important to prioritize reform correctly. In the typical post-conflict situation a very wide range of policies are deficient, but they cannot all be reformed at once. I take four aspects of the real economy that should make policy distinctive.

4.1 Reconstructing Infrastructure

The most evident economic opportunity post-conflict is the high return to the reconstruction of infrastructure. For example, the provision of finance for this opportunity was the rationale for the foundation of the World Bank, the original name for which was ‘the Bank for Reconstruction’, to which the words ‘and Development’ were added as an afterthought.

The most evident infrastructure needs are power, ports, and roads. Without reliable power the formal sector cannot develop. In Uganda in the early years of recovery survey evidence from firms showed that this was the most important impediment on private investment. The technology for electricity generation is completely standard, and procedures for requiring payment for delivery of electricity are also standard. Persistent failure to provide adequate power is thus the result of serious failures in planning. A typical cause of failure in generation is that a single, sophisticated ‘ideal’ project is proposed, which turns out to face far more hurdles than was anticipated, whereas in cost recovery the failure is that pricing becomes politicized. With ports the typical problem is poor management, reflecting the exploitation of the local natural monopoly of the service. The port of Dar es Salaam was rapidly transformed from one of the worst in the region to East Asian levels of efficiency by bringing in outside management under contract. This is an example of the options for redrawing the boundary between the public and private sectors. Rural roads are critical to the reintegration of the rural economy into the urban market which is a fundamental aspect of post-conflict recovery. In the first phase of recovery the government of Uganda placed a high priority on rural roads. Subsequent evaluation by the World Bank estimated that the rate of return on this investment was an astonishing 40%. Urban roads will be needed because as the economy recovers the private sector will rapidly invest in vehicles and this will produce chronic congestion.

4.2 Managing Capital Flight and Repatriation

During civil war wealth holders are faced with an environment that has become more risky and more predatory. In response they would like to hold a higher proportion of their wealth outside the country. This is partly because the expected return on investment will most likely have fallen, and additionally because risks will have increased. However, although people would like to move their wealth abroad, the portfolio cannot be relocated instantly. Most wealth is tied up in fixed assets and these only become liquid as they depreciate. Normally as assets depreciate they are replaced or maintained. But at this point the asset owners have the option of shifting resources abroad instead of spending on replacement and maintenance. Hence, war creates disequilibrium in the portfolio, which we can expect will gradually be resolved by a drastic reduction in private investment and maintenance expenditures. Even fairly modest desired changes in the overall allocation of the stock of wealth are likely to produce massive changes in domestic investment because this is how the stock is adjusted.

In Africa capital flight has been a first-order phenomenon. Collier, Hoeffer and Pattillo (2001) estimate that as of 1990, around 38% of Africa’s private wealth was held abroad. MacIndoe (2007) has updated and extended this estimate. Her figures are for 2004 and she covers many more countries than included in the original estimate. Her figure for Africa in 2004 is 36%.

The key implication of capital flight for post-conflict economic policy is that it is a first-order matter. At one extreme, despite the onset of peace, substantial capital flight may still continue. Even though peace will most likely have improved the environment for domestic investment relative to its wartime level, it may nevertheless be considerably worse than a normal peacetime situation. If by the end of the war private portfolios have only partially adjusted to wartime conditions, it is entirely possible that it is also insufficiently adjusted even to the somewhat improved circumstances of post-conflict peace (Collier, 1999). Hence, in these circumstances the post-conflict economy will continue to haemorrhage capital until policy is improved and risks are reduced. At the other extreme, the large proportion of private wealth that is held abroad by the end of a civil war can constitute an enormous potential for accelerating recovery. For example, by 1986 some two-thirds of Ugandan private wealth was held abroad, so that the domestic capital stock could potentially be tripled just by repatriation. Usually, post-conflict economies continue to suffer capital flight, but by the mid-1990s Uganda was attracting substantial repatriation. The situations with most scope for repatriation are where the war has been sufficiently long that portfolios are likely to be fully adjusted.

Since capital flight or repatriation is liable to be so important in post-conflict situations, policies should in part be set with a view to the objective of encouraging repatriation. The policies that have been found to affect capital flight are exchange rate overvaluation, high risks, and low returns on domestic investment (Collier, Hoeffler and Pattillo, 2001, 2004). I will return to the distinctive influences on capital flight in post-conflict situations in Section 5.

People as well as assets have an incentive to flee a civil war. However, there are many impediments to emigration and other countries tend to be most willing to accept those with skills. Thus, since the most mobile tend to be the most skilled, the society haemorrhages its talent. An implication of the mass emigration of the skilled is that post-conflict there is a large skilled diaspora. Since the post-war economy will be short of skills, the return of the diaspora offers potential analogous to capital repatriation. However, in addition to the risk and return considerations common to both skills and wealth, the repatriation of skills depends upon both social and political factors. Typically, skilled workers abroad will have families, and in particular, children in school. If repatriation involves a drastic decline in the quality of education and health care for these children, then attracting back talent will prove difficult. Thus, a priority is to permit and to encourage the private provision of diaspora-quality social services, something that may be politically difficult.

4.3 Managing Commodity Booms

Post conflict situations are opportunities for commodity export booms. The potential for growth of commodity exports comes from both quantity and price effects of the onset of peace.

The transition from war to peace transforms the scope for investment in extraction. During the prolonged period of the typical civil war exploration and investment in mineral extraction is usually drastically curtailed. For example, oil was originally discovered in Chad in the 1950s, but civil war inhibited the massive international investment required to extract the oil until after peace. Similarly, since the peace in Sierra Leone there has been a huge expansion of international interest in prospecting for a wide range of minerals, and in East Timor there has been massive investment in offshore gas, the existence of which was known but not exploited during the occupation by Indonesia.

In some post-conflict situations this quantity windfall is augmented by a price effect. Although the world price of the country's export commodity is unaffected, peace improves the government's bargaining position vis-à-vis international companies, increasing the share of the world price that the government receives. A study of Angola illustrates this effect. La Ferrara (2004) investigated the price of the stock of those companies that were extracting Angolan diamonds and which were quoted on the New York stock exchange. She found that the onset of peace in Angola as heralded by the death of Jonas Savimbi, significantly *lowered* stock prices: stockholders anticipated that peace would enable the government to negotiate a more advantageous deal. A similar situation seems likely in Sudan. As in Chad, oil was discovered in the 1950s but was for many years unexploited due to war. Although eventually the government managed to attract some fringe oil companies to invest prior to the end of the conflict, its bargaining position with these companies was very weak both because of the costs and risks imposed by ongoing conflict, and because the major international companies were not competing for the extraction rights. The onset of peace has enabled a renegotiation of the terms of extraction.

The extraction of minerals generates *economic rents* – returns over-and-above normal profits. A unique feature of such rents is that they can be taxed without causing any distorting change in behaviour: by definition, rents are above the level needed to motivate investment. Hence, it is appropriate to have high taxes on resource rents. Indeed, in principle, rents could be taxed at 100% before the behaviour of firms changed. There is thus some presumption that the revenue generated from resource extraction should be high, whereas typically in post-conflict situations it is low. The key reason for low revenue is that during conflict the government is liable to have sold extraction rights on very poor terms. This is partly because during conflict the government is in an inherently weak bargaining position, but also because the likely deterioration in standards of governance during conflict accentuates the government's agency problem. The negotiation between a government and a firm is necessarily delegated on each side to an 'agent': typically a minister might be the agent of the government and a director might be the agent of the firm. Both government and firm face a standard 'agency problem': how to ensure that the agent to acts in the interests of the 'principal'. Typically, however, there is a massive asymmetry. The government is far less successful in overcoming its agency problem than the firm: it has less effective means of scrutinizing whether its agent has reached a deal which is beneficial, and it has less effective means for rewarding its agent if he has done so. An implication is that it is radically easier for the director to bribe the minister to sacrifice the interests of his country than it is for the minister to bribe the director to sacrifice the interests of his firm.

Hence, the post-conflict government inherits a disadvantageous set of contracts. This problem is then commonly intensified during the early years of a post-conflict government because the political process is usually in flux. Often the immediate post-conflict government is 'transitional' pending elections, an example being the DRC. During the transition period ministers have a strong incentive to 'mine' public assets for private gain, since their time horizon is short. Thus, in the three years before the 2007 election in DRC there were massive sales of mineral rights to private companies on terms that have repeatedly been called into question as being nationally disadvantageous. Companies connive with powerful politicians to cut deals that are advantageous to both at the expense of the government. In effect, post-conflict governance is typically too weak to surmount the 'agency problems' involved in letting ministers negotiate on behalf of the government.

The issue is how best might such taxes be levied? There are three potential points of taxation: export of the commodity, profits of firms, or sale of the rights to resource extraction. Of these the third is overwhelmingly the most promising. Export taxation is limited by the capacity of the customs service to enforce the taxation and often faces insuperable problems of smuggling, and even were these overcome it would face daunting problems of how to ensure that its officers were behaving honestly. Profits taxation depends upon accurate reporting of profits, which as noted above cannot be trusted.

If the best approach is to raise revenue by selling the rights to extraction, how should these rights be structured and sold? Governments should not attempt to *negotiate* the price of rights with prospective buyers who approach it with offers. Governments simply do not have adequate information to estimate the true value of the rights. The best approach is to use the technology of auctions to force firms to reveal the true value of the rights through the need to compete against other firms. As an illustration of the massive errors that are liable to be made in the absence of an auction, the British Treasury initially planned to sell the rights to 3G mobile phone networks through a negotiated contract and estimated their value at £2bn. Instead, it was persuaded that the best approach was indeed an auction and this realized not £2bn but £20bn. If the British Treasury, which had access to the some of the finest expertise globally available, can underestimate the value of a mobile phone network by a factor of 10, consider the likely scope for error in the estimation of the value of mineral rights by a typical post-conflict government.

For an auction to be feasible the rights should be clear and this requires a cadastral of potential resources. Once established, the rights to well-defined locations with resource potential should be well-advertised to firms internationally so that there are plenty of bidders. In the present environment of aggressive global competition for natural resources, any adequately defined and well-advertised auction for rights will attract bidders. With sufficiently strong assumptions the precise design of an auction does not matter: over a wide range, auctions of various designs yield the same revenue which is higher than non-auction processes of pricing. However, the assumptions needed for this result are unlikely to hold in the context of the rights to resource extraction: auction design matters. For example, in many situations the value of one concession is likely to be dependent upon ownership of some other concession, as phenomenon termed *super-additivity*. Crampton (2007) suggests that for many types of resource extraction the most suitable auction design is a two-stage procedure termed a *clock-proxy auction*.

There is a further powerful case for an auction over negotiated contracts and this concerns *agency*. An auction avoids this asymmetric agency problem by avoiding the need for bilateral negotiation. The 'agency' problem that a post-conflict government faces in monitoring the deals negotiated by its ministers is intensified by the agency problem of citizens in monitoring their post-conflict government. In particular, a transitional government has both the incentives and the power to strip the assets of which it is temporarily the custodian by selling off rights that extend as far into the future as possible during its brief tenure. There is an analogy with the asset stripping that took place during the transition in the FSSU, where rights to mineral extraction were sold swiftly on terms highly disadvantageous to the society.

Until a transparent and accountable system is in place, the rights of a post-conflict government to dispose of mineral rights should be limited. In effect, the sovereignty of post-conflict governments needs to be restricted until the society has had the time properly to establish a transparent mineral rights regime such as the auction system discussed above. The question then arises how sovereignty can be so limited. Potentially, sovereignty over mineral assets might temporarily be lodged with a regional body such as the African Union which then authorized an implementing agency such as the African Development Bank to police mineral rights during the transition phase. An alternative or complementary authorizing environment is for the United Nations acting through the Peace-Building Commission to promulgate minimum standards for the acquisition of mineral rights during the transition period. In either case, enforcement would potentially be straightforward. The right to extract minerals beyond the horizon of the transitional government is only valuable to the extent that it is enforceable at law. If rights acquired in breach of international standards were declared invalid, they could be revoked by a subsequent government without the need for compensation and without damage to reputation. A close analogy is a recent proposal on odious debt. Jayachandran and Kremer (forthcoming) propose that debt incurred by a government that was declared internationally to be in breach of certain basic standards would not be enforceable in international courts. Any international standard, such as a requirement that mineral rights should be sold through auctions, would need a system of verification that assessed whether an auction was conducted to adequate standards. This would be analogous to the international verification of election results, and the international verification of adherence to the Kimberley process of diamond sourcing.

Even once a post-conflict government has established a verified auction system for the sale of mineral rights, it might be ill-advised to sell rights beyond a relatively short horizon. The conflict and post-conflict environment is so uncertain that resource extraction firms are likely to take a short term view of value: unless a prospective investment is expected to be profitable in around a three or four year horizon it is unlikely to be undertaken regardless of subsequent prospects because these distant prospective profits will be discounted. Hence, in the early post-conflict years the market value of more distant rights of extraction might be only a small fraction of their eventual worth. The post-conflict government should be cautious of selling off these rights at highly discounted prices, and there is a case for restricting the rights of post-conflict governments so that they are not in a position to do so until the political situation is more secure.

In addition to the quantity and price effects for the non-renewable commodities that contribute towards a post-conflict commodity boom, there are likely to be quantity effects in the agricultural commodities. Production for export agriculture is likely to decline during civil war as peasant farmers retreat into subsistence. This is partly because in its desperation for revenue to finance military spending the government is likely to over-tax export agriculture, and partly because farmers who produce valuable crops are liable to be subject to informal violent predation. For example, Deninger (2004) shows that in rural Uganda farmers who produced coffee were more at risk of violence. The retreat into subsistence is thus in part a strategy for safety (Bates, 2001). Collier (1999) presents evidence on how the structure of the economy changes during civil war, showing that this retreat into subsistence is substantial. However, the decline in the output of export agriculture during conflict is by means of a withdrawal of labour and other recurrent inputs which are easy to reverse with the onset of peace. The capital stock for the sector is predominantly in the form of trees, such as coffee, tea and cocoa, which are very long-lasting and costly to uproot, and so is intact when peace arrives.

4.4 Managing Construction Booms

Post-conflict recoveries are characterized by construction booms. The pace of the construction boom is a key variable in overall recovery: the construction sector is liable to be a bottleneck but one that can be eased by appropriate policy.

The above discussion of the real economy has revealed four distinct elements of increased demand for the services of the construction sector. Each of these demands compete against each other, cumulating to a boom. Taking them in turn, the first is the demand resulting from public post-war reconstruction of infrastructure. The second is the private demand for domestic investment coming from the reduction in capital flight and the possibility of capital repatriation. The third is the private demand for domestic investment coming from commodity booms which are themselves driven by multiply sources – exploration, higher prices as a result of stronger bargaining power, and the recovery of agricultural exports. The fourth is the demand coming from the diaspora. In practice the diaspora neither returns en masse nor severs its links with its society of origin. A common phenomenon is for the diaspora to use the opportunity of peace to build houses which become the basis for periodic visits but are also symbolic of continued involvement in the society. This house-building is useful both to anchor the diaspora in the society, thus prolonging the likely remittance flow, and as a demand for the output of the local economy. In effect, the construction of houses for the diaspora is an export activity.

Whereas demand for construction services increases with the onset of peace, the supply of construction services will have declined drastically as a result of the conflict. As discussed above, during civil war there is a collapse in investment. In turn, this disproportionately hits the sector of the economy which produces capital goods. Capital goods take two forms, equipment and structures. Equipment is easily internationally tradable and so Africa imports most of its equipment rather than produce it domestically. But most structures cannot be imported, they have to be built, and the sector that producers structures is the construction sector. Essentially, during civil war people stop building, and so the construction sector withers away: the society is being organized for destruction, not construction. Since the typical civil war lasts a long time, the lack of construction activity has important implications for the economy's skill base. Construction needs a wide array of specialist skills, some manual, such as bricklayers, carpenters, electricians, plumbers, and welders, some professional, such as architects, and some organizational, which are largely embodied within firms. Most of these skills are replenished through training within the firm, for example by means of apprenticeships. During civil war this simple but important process of skill renewal is halted. By the end of the conflict the economy has lost much of its stock of construction skills and specialist firms. Thus, the construction sector starts the post-conflict period atypically small, and there are limits to its rate of expansion.

Since the sharp increase in the demand for construction services, coming from four distinct components, collides with the severely limited capacity of the construction sector, the relative price of construction services explodes. The phenomenon of a rise in the price of construction services driven by a sudden increase in demand is termed a *construction boom*. Construction booms are inevitable and important phenomena in post-conflict economies. Their normative importance is analogous to the economics of Dutch disease, of which construction booms are a variant. Dutch disease is an appreciation in the relative price of non-tradable goods to tradable goods. Dutch disease per se is not an important issue in post-conflict economies because export diversification is not an imminent prospect and so should not be a priority. However, during a construction boom the relative price of producing the sub-set of non-tradable goods which are capital goods, namely structures, appreciates. This can constitute both a major waste of resources and a bottleneck on the rate of economic recovery. To give a current practical example, in Liberia in the year since the establishment of a credible post-conflict government, the cost of building a school has approximately doubled. Thus, agreed donor projects to finance school-building will purchase only around half the expansion in education envisaged at the time the aid was committed.

More generally, the post-conflict government needs to be concerned about the consequences of the sudden increase in the demand for structures on the price of producing them: that is, it is about the elasticity of supply in the construction sector. If the elasticity of supply is low then the increased demand for structures will drive up costs, so that much of the resources devoted to incremental construction will be dissipated in higher costs rather than in additional quantities and the higher price will itself choke off some of the increased demand for investment. The normative focus is then on how best to respond to this problem, the policy options being to increase the elasticity of construction supply and if necessary to postpone public investment so as to avoid crowding out the private sector demand for construction services.

The most visible sign that the limitations of the construction sector constitute a bottleneck during a post-conflict reconstruction is a spectacular traffic jam, current examples of which are Luanda and Freetown. The reason why these cities are currently subject to severe traffic jams despite the abject poverty of most of their populations is that there has been a sudden and large expansion in imports of vehicles whereas the road network is still the decayed legacy of the war. In turn, the expansion in the stock of vehicles reflects the investment boom that is fuelled both directly by post-conflict recovery, and by associated commodity booms. Vehicles, being tradable capital, can be increased more quickly than roads, which are non-tradable capital and so need to be constructed. This is a useful example of a more general phenomenon: the lack of structures, and the constraints on expanding the stock of structures quickly due to the weakness of the construction sector, reduces the return on equipment and so curtails investment in it even though the stock of equipment could in principle be increased quickly. The bottleneck nature of the construction sector can be grasped by taking the extreme limiting case of fixed coefficients between structures and equipment, and a fixed relationship between incremental capital and output. In this case the rate of expansion of the construction sector *determines* the rate of recovery of the economy. While these assumptions are extreme rather than realistic, they do capture an important but neglected issue for the management of post-conflict economies.

Not only is the construction sector a bottleneck for the overall rate of economic recovery, more particularly it is a key activity for the creation of jobs for unskilled young males. Recall that because the risk of reversion to conflict is alarmingly high during the post-conflict decade, at around 40%, the single most important priority for post-conflict economic policy is to contribute to the reduction in this risk. Post-conflict governments have few policy instruments for rapid employment generation. An expansion of employment in the public sector itself is likely to be irreversible, locking the economy into long term inefficiency, and in any case the most likely recruits to public sector employment are not the unskilled young men who are most prone to violence. A second option of retaining youth in the army is both wasteful and, as discussed above, may inadvertently increase the risk of reversion to conflict. The expansion of private employment in the construction sector is potentially far more attractive: the labour force is directed to a critical activity, and it can be redeployed to other sectors as the economy expands and the initial construction boom recedes. However, although the construction sector employs unskilled labour, such labour is in general not a substitute for the skilled labour and entrepreneurial organization used by the sector and that are in limited supply. Rather, unskilled labour complements these factors in the production process. Hence, just as the overall rate of recovery of the economy is liable to be constrained by the rate of expansion of the construction sector, so is the employment of unskilled labour in the sector.

I now turn to how policy should best respond to the problem of inelastic supply in the construction sector. The two key responses are to augment construction supply and to postpone investment. If construction is a bottleneck the pertinent issue evidently becomes which of the inputs into construction are limited and what can be done to augment them. Just as structures are bottlenecks because they are non-tradable capital goods, so *the key bottlenecks to the expansion of the construction sector are those non-tradable capital goods that are used in the construction sector*. Analytically, this tracing back along the production chain of non-tradable capital goods is analogous to the old soviet-type closed-economy growth models in which growth was maximized by producing machines which themselves produced machines. The grain of truth in these discredited models was that some types of capital really are largely non-tradable and are needed as complements to other forms of capital, so that a failure to produce enough of them has the potential to constrain growth.

As discussed above, the key non-tradable capital used by the construction sector is skills and organizations. To an extent even this capital can now be imported. For example, the current copper boom in Zambia has generated an investment boom in an economy where investment has been chronically low so that construction skills have been depleted. The resulting construction boom has encountered severe shortages of basic skills and in response the government has imported a hundred welders from Malaysia. While the import of welders makes the supply of construction more elastic, it is evidently an expensive solution relative to training more Zambian welders. However, since training takes time, this is only an option if the boom is anticipated by a prior investment in skill formation. While it is not possible to anticipate a copper boom, post-conflict planning is much more straightforward. A construction boom will follow the arrival of peace as night follows day and so right from the start of the peace a shortage of construction skills can be anticipated. A priority is thus at an early stage to establish training facilities for basic construction skills and target training on precisely the young men who might otherwise be recruits into the reversion to violence.

Similarly, organizational bottlenecks can now be overcome by the use of foreign construction firms. The ultimate import-intensive construction operations are the Chinese firms whose mode of operation turns construction into an entirely tradable activity: no local inputs or factors are used. The present common practice in Africa's post-conflict economies of combining a Chinese construction contract with a resource extraction contract has the advantages of economizing both on the skills and organization that are scarce in the construction sector, and on government managerial capacity. However, such an approach has two costs. The first is that bundling the two distinct activities of resource extraction and construction into a single contract prevents price revelation for each component and so is likely to yield a deal that is disadvantageous for the government. Only by unbundling the contracts into a resource extraction component and a construction component can each be put out to competitive bidding and the best price discovered. Essentially, at present the Chinese have a monopoly in bundled contracts and such a monopoly can be expected to disadvantage the government. Even if the government prefers a bundled contract, so as to minimize its management input, it would be preferable to invite bids for an explicit bundle and allocate the bundled contract through an auction. International resource extraction companies could then join forces with international construction companies to produce a bundled bid which would then make it possible to see whether the Chinese bundled bids are good value. The other cost of the Chinese bundled approach is that in post-conflict circumstances construction has value both for its output of structures and for the employment it generates for unskilled young men. In effect, the shadow wage for such workers – the social cost of their employment - is much lower than the wage paid by a construction firm and may well be negative in the early post-conflict years. The zero local content of Chinese construction operations is therefore inappropriate for post-conflict conditions except in circumstances where the scale of the desired reconstruction is so large that employment generation is already fully accommodated by other construction work. In effect, the Chinese option introduces a high-cost but highly elastic portion of the construction supply curve.

In summary, the problem posed by construction booms in post-conflict economies is that the supply curve of construction services is likely to be very steep so that much of the large shift in demand is dissipated in extra costs or choked off by these costs. The policy objective is to flatten this supply curve. I have discussed three policy options each of which has this effect and can be thought of as creating a section of the supply curve. The first is the training of local workers in the skills needed by the sector, and strategies that assist the few domestic construction firms such as tailoring government contracts to a size that is appropriate for them. The second is to import skills and firms. The third is the Chinese option which, at a high cost level makes the supply curve almost horizontal.

These strategies for the expansion of construction supply should form a core part of post-conflict economic planning. The closest analogy is the practice of the government of Botswana, which although never post-conflict, faced a similar problem. The rapid growth of government revenue from diamonds and the resulting scope for public investment created massive demands for construction, but this occurred in a context of initially very limited domestic capacity. In addition to a rolling overall economic development plan, the government had an annual plan-within-a-plan specifically for the construction sector. Each year it would extract from the overall plan the implications for the construction sector, convene the local construction firms, and discuss whether implementation was feasible. If it was judged infeasible, the government would ascertain the problems facing local construction firms, attempt to alleviate them, and also revise the plan so that it was consistent with local capacities. It also flattened the supply curve by the use of foreign construction firms and imported skills.

5. Distinctive Government Revenue and Spending Strategies

Post-conflict governments face highly distinctive problems of fiscal management, both on how revenue is raised and how expenditures are implemented. I have already discussed the design of one important source of revenue, namely that from natural resource extraction. Here I focus on two other sources, taxation and aid. Conventional economic wisdom is that post-conflict societies should increase domestic tax revenues as rapidly as possible: typically by around one percentage point of GDP per year, and reduce dependence upon aid. I suggest that this conventional wisdom is highly questionable. I then turn to the design of expenditure systems.

Revenue 1: Taxation of earned income

I now introduce what is perhaps my most controversial proposition, namely that the government should not try to raise taxation aggressively. Tax revenue will typically have collapsed to very low levels, and since the government faces many pressing needs the temptation to meet them by forcing up revenue is evident. However, tax revenue has declined for two reasons that cannot be corrected rapidly: the system of tax administration will have become corrupted, and the formal sector of the economy, which is the main taxable base, will have shrunk even more rapidly than the rest of the economy. The central task of post-conflict reconstruction is to revive this part of the economy and so hitting it with heavy taxation can be deeply dysfunctional. Further, in practice, taxation is liable to generate large costs of 'distortion', generated because taxation is driven into forms that induce large behavioural changes as people try to avoid it. This is likely because the tax administration has neither the information nor the culture to do otherwise. If the Revenue Authority is given a target of higher revenue, it can always achieve this target, at least in the short run, by permitting its tax collectors more leeway in aggressive demands on firms. However, consider what these tax collectors will in practice do to increase the taxes they raise. Not only has tax administration become corrupted, but so has the corporate culture of audited accounts: the accounts that firms present to tax collectors will be recognized as highly misleading and designed to conceal profits. Hence, the tax collector will look for visible signs of profitability to form a judgment on what can realistically be demanded despite what the accounts purport to say. Evidently, *the main visible sign of profitability in a firm is investment*. Hence, in practice, aggressive taxation is liable to become a tax on private investment. Yet this is precisely the activity that is most valuable in a post-conflict society: were it possible to do so, the government would wish to subsidize it, not tax it. Sustainable increases in tax revenue can only be built through a long term process of restoring the formal economy and developing compliance with taxation. Both of these depend upon a prolonged period of low tax rates on earned incomes.

Revenue 2: aid

If revenue sources are going to be limited, how can the government hope to finance its spending needs? The most reasonable prospect is to attract large and sustained inflows of aid. The typical post-conflict environment now attracts large aid inflows for an initial phase, but the problem is that these large inflows are usually not sustained beyond the first few years. Donors now allocate aid on reasonably clear criteria so it is straightforward to see why aid tends to taper out during the post-conflict decade and from this to conclude what can be done about it. Post-conflict countries initially get large aid inflows because donors usually have a special window for post-conflict situations, but eligibility for this window does not last for long. For example, the World Bank phases post-conflict allocations to zero over a period of seven years from the end of the conflict. After that, governments receive aid primarily on the basis of the *attained* quality of their economic policies, institutions, and governance. Since post-conflict countries start from very poor policies, institutions and governance, unless the government uses the first few years for rapid and decisive reform it will face a severe reduction in aid inflows.

If post-conflict governments can rapidly, substantially and visibly improve their policies and governance the prospects for aid are excellent, because the other key criterion for aid allocation is per capita income. Most post-conflict societies are extremely poor and even with good growth will remain poor relative to other aid recipients for several decades. Hence, as global aid budgets rise and many countries grow out of poverty, the typical low-income post-conflict country will find itself with the prospect of steadily rising aid. This need not be an alarming prospect: there is no need to become independent of aid. However, it is extremely difficult for a post-conflict government to improve policies and governance sufficiently to establish credibility with donors by the time that the post-conflict aid tapers out. Even where the government wishes to adopt reforms, it has very limited capacity to do so.

A partial solution to the problem of the need to reform rapidly in a context of limited implementing capacity is to import the required skills through using aid for technical assistance. Such assistance can be used both to substitute for the lack of capacity within the civil service, and to train citizens and so gradually to augment domestic capacity. Chauvet and Collier (2006) investigate how technical assistance provided once a reform process has started affects the changes that the reforms will continue to the point of decisive and sustained change. They instrument for technical assistance to address problems of endogeneity and find that it indeed has highly significant and substantial beneficial effects. Hence, a large programme of donor technical assistance to reinforce the capacity for change is likely to be a particularly valuable use of aid in the immediate post-conflict years.

However, even technical assistance has severe limitations. In most African post-conflict situations the major public spending ministries radically lack the capacity to implement rapid increases in spending effectively. They can achieve neither adequate standards or honesty nor adequate standards of efficiency. Further, donors start from a presupposition of these failings and so it is not enough for ministries to surmount the hurdles of honesty and efficiency, they need to demonstrate that they have done so. In the absence of such assurance, donors taper aid, divert it around government to NGOs, channel it through ad hoc project implementation units, and intervene directly in public spending decisions. For example, Sierra Leone is facing tapering as it comes out of the phase designated by the World Bank as conferring eligibility for post-conflict funding. In DRC donors rely predominantly on project implementation units. In Liberia they intervene directly in government spending decisions through the G-MAP system, whereby the Minister of Finance has ceded the power to authorize spending to a dual signature system in which donors have to sign off as well as the minister. Faced with this reality of donor distrust in the context of an acute need for aid, *both the quantity and the quality of aid depend upon the perceived quality of government spending*. Post-conflict governments need a system of public spending which is demonstrably effective without encroaching on sovereignty.

Public expenditure: Independent Service Authorities

I now turn to the mechanics of public spending. In particular, how can its quality be improved rapidly so that it is reasonably honest and effective, and so that this turnaround is sufficiently manifest to be convincing to donors, while not resorting to the drastic sovereignty-curtailing approach of the Liberian G-MAP?

It is important to be realistic about the administrative and managerial capacity of the government to meet these needs even if finance is available. The typical post-conflict country inherits a history in which governments have *never* managed to build an effective public sector even prior to the civil war. The legacy of war has not made this task even harder than it was. Hence, rather than attempting to build a conventional system of public administration within spending ministries which did not work even when circumstances were easier, it may be better to adopt the more radical approach of leapfrogging to a more modern administrative technology. An analogy is the opportunity provided by the invention of mobile phones, which enabled African economies to leapfrog the landline technology which the region's governments had been incapable of providing to an adequate standard. What is the equivalent change in the institutional technology of public service provision?

At independence, African governments inherited the then-current European model of public service provision: centralised, public monopoly supply run from government ministries and directly responsible to a politician. Africa has generally persisted with this model, even in the face of severe deficiencies in supply, whereas in developed countries modes of supply have evolved. The trend of institutional change has been towards decentralized decision processes, contractual arms-length arrangements with suppliers, and diverse channels of delivery. One manifestation of this process has been the blurring of the distinction between public and private provision: so called 'public-private partnerships'. Given the acute capacity limitations of post-conflict governments, the need for a conventional public sector should be minimized. There is a wide borderland of activities that are sometimes placed in the public sector and sometimes placed in the non-government sector. It is appropriate for post-conflict governments to draw the line between public and non-government activities so as to minimize the requirements placed on the centralized state sector. Note that this need not in any way imply 'cost recovery' in the provision of basic services. Non-government provision of services does not require that the users of services pay for them. Rather, the usual model is for government to pay the providers of services subject to some measure of performance.

The key ingredients of this new model are the separation of the function of setting policy from the function of implementing service delivery. Policy remains the responsibility of ministers and ministries, but implementation is decentralized to quasi-independent public agencies, operating under clear rules and public scrutiny. One design why I have advocated is for incremental service provision to be delegated to public agencies termed *Independent Service Authorities* (ISAs), a model similar to that adopted by the Palestinian Authorities. The role of an ISA would be to contract with a range of suppliers of the core public services, health care and education, channelling money to them in return for the supply of services to users. It would not itself attempt to supply services at the retail level to avoid issues of moral hazard. The channels it might use could include local governments, churches, NGOs, and private firms, with the same service being supplied by several channels. The ISA would finance not just any capital costs of new projects but their continuing recurrent costs and indeed could take over the recurrent costs of existing services. Its ability to fund recurrent costs sharply distinguishes it from Social Funds, which are the nearest the donor community currently gets to an ISA. Social Funds, which are probably the dominant mode of donor service provision in post-conflict situations, provide money for projects directly to communities. They are manifestly an inadequate solution to the challenge posed by post-conflict social needs since they rely upon either the community or the government to meet the recurrent costs once the facility is built. Indeed, budget support was invented twenty years ago so that donors could finance recurrent costs of social spending. Paradoxically, since budget support can only be provided where donors trust budgetary processes, recurrent costs can now be met in relatively low-poverty environments such as Ghana, whereas in the context of the more acute needs of post-conflict societies they cannot. Thus, for example, in Liberia the Ministry of Health has asked the World Bank to stop building clinics because it cannot afford to finance their recurrent costs, and in Sierra Leone impoverished communities are expected to find the finance to run completed projects which in better-governed environments would be covered by government.

In addition to contracting with suppliers, the ISA would conduct rapid and continuous evaluations of performance: indeed this would be its core role. The flow of information from these evaluations would guide the allocation of further finance. One legacy of conflict is opportunistic behaviour which tends to flourish during the weakened administration of justice which commonly occurs during civil war. In opportunistic environments the pay-off to spending on monitoring, scrutiny, assessment and evaluation is likely to be higher, so that it is appropriate to adopt a public spending system for social provision in which a relatively high proportion of the budget is devoted to these functions. In support of this, Chauvet, Collier and Fuster (2006) find that supervision is differentially effective in 'fragile state' conditions. They compare the performance of some 3,000 donor projects, some in 'fragile states' and others in better governed low-income countries. They find that although performance is unsurprisingly worse in fragile states, not only does expenditure on supervision improve project performance, but it makes a larger difference in fragile states than in other states: with enough supervision projects in fragile states have the same success rates as elsewhere.

How would an ISA fit into the architecture of government? They could be somewhat analogous to independent central banks, and to Independent Revenue Authorities, in being public agencies with a degree of separation from both the civil service and politicians. Their spending would clearly need to fall within the remit of the annual budget, but salaries need not be tied to civil service levels. As with central banks and IRAs, the management of an ISA would not be under the control of a minister. Instead, for example, management might report to an ISA board composed partly of representatives of government, (most probably the pertinent spending ministries), partly civil society, and partly donors. Since the board would receive the flow of spending evaluations and authorize spending decisions, the donors would have inside and rapid access to information on performance even though they did not control decisions.

The finance for an ISA would come predominantly and perhaps exclusively from donors. In effect, an ISA would function for donors somewhat like ring-fenced budget support: money put into the ISA could only be spent on the range of social provision within the mandate of the ISA, and the information on spending performance would automatically and routinely flow directly to donors in their capacity as board members of the ISA. Unlike a social fund donor money could be devoted to recurrent expenditures and the any payments to NGOs would come under the government budget and be properly evaluated. Unlike a project implementation unit, the ISA would be a domestic public institution, intended to be permanent, able to offer staff prospects of a long-term career. Over time, however, the government might choose to channel more of its own revenues devoted to social spending through the ISA rather than through the spending ministries, whose role would then become focused on policy design. Similarly, the composition of the ISA board could evolve to phase out donor representatives as the government became confident that it could retain donor confidence and finance without them.

ISAs are only appropriate in relatively extreme conditions in which the need for greatly expanded social provision is overwhelming but where the chances of rapidly establishing a well-functioning and large conventional civil service are remote. There establishment does not, however, preclude attempts to establish conventional spending mechanisms since the two can be attempted in parallel. The IDA model does not require that it should control all public spending on service provision. Current contexts where an ISA might be a useful approach on an experimental basis are Liberia, Sierra Leone, DRC and Southern Sudan.

Bringing revenue and expenditure together: the fiscal balance

Suppose that a post-conflict government were actually to follow the above suggestions. It accelerates reform through a large programme of technical assistance programme and convinces donors of its capacity to spend money well through the establishment of an ISA. As a result it has good prospects for sustaining substantial aid inflows. It also starts to attract capital repatriation, and it manages the sale of mineral rights in such a way as to raise significant revenues without mortgaging the future. It uses some of the resulting revenues to enable it to avoid heavy taxation of non-extractive private activities. Finally, it manages the construction boom by taking effective measures to get as much expansion in the output of the construction sector as possible while avoiding large increases in costs. This enables it to have a large public infrastructure programme without crowding out private investment.

These measures have contradictory influences upon the fiscal balance. How should the government decide to set its fiscal deficit, an issue which is now sometimes referred to as 'fiscal space'? One issue is whether relatively high inflation an acceptable price to pay to increase spending on infrastructure and to redress acute social needs? Another issue is whether macroeconomic considerations should lead the government to be cautious about accepting large aid inflows even if they are proffered?

These are important issues of fiscal strategy to which I cannot do justice. However, three pieces of evidence suggest that the likely answer is that a post-conflict government should be very cautious on inflation, but very ambitious on aid. In other words, it should maintain relatively high levels of spending, but use large aid inflows to avoid the need for inflationary financing.

The first evidence is that in post-conflict conditions capital flight is particularly sensitive to inflation (Davies, 2007). Since the management of capital flight is a first-order matter in post-conflict conditions this suggests that governments should be very hesitant of funding spending through inflation. The second evidence is from Adam, Collier and Davies (2006), who find that distinctively in post-conflict situations governments use a significant part of aid to reduce inflationary deficit financing. The third evidence is from Collier and Hoeffler (2004) and Elbadawi et al (2007) who find that aid is particularly effective in raising growth in post-conflict conditions. While this evidence is very far from decisive, it does suggest that the approaches of high taxation, limited aid and limited spending, and that of high spending financed by inflation may be dominated by that advocated here, namely, low taxation, high spending, high aid, and low inflation.

6. Conclusion

In this paper I have posed the question of how economic policies and priorities should be distinctive in post-conflict conditions. I have not attempted to be comprehensive. For example, I have not discussed some of the distinctive health needs post-conflict, nor policies towards disarmament, demobilisation and reintegration (DDR). These matters are apparent and have been well-covered elsewhere. Rather, I have focused on aspects of the economy which, though important, can easily be missed both by policy makers who are overwhelmed by the task at hand, and by advisory teams from the international financial institutions and the United Nations agencies who may simply extrapolate from more priorities in more conventional peacetime situations.

I have suggested that objectives, political opportunities, economic opportunities and fiscal strategies are all likely to be distinctive. In terms of objectives a post-conflict society has to give overriding priority to the reduction in the risk of renewed conflict. Two economic policies that can reduce risks are to reduce military spending and to increase employment opportunities for unskilled young men. In terms of political opportunities, the post-conflict decade may be a particularly good moment for rapid economic reform. In terms of economic processes, I have highlighted the importance of attempting to induce the repatriation of flight capital, of improving the governance of mineral rights, and of managing construction booms. None of these features very prominently in conventional post-conflict economic strategies. In terms of fiscal strategies, I have advocated a package consisting of low taxation, high aid, a high-scrutiny model of public spending, and low inflation.

Many of these suggestions are new and so can only be tentative. The research that is needed to test them is currently inadequate, although work on post-conflict economies is at last expanding, thanks for example to the recent research project organized by the

World Bank. Unfortunately, our ignorance collides with a real and present need: Africa has more post-conflict situations than ever before. Governments with limited economic domestic economic expertise are thus in the difficult situation of being faced by conventional advice which is manifestly not adequately adjusted for post-conflict conditions, or the tentative alternatives posited in this paper and the related new research.

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