Postconflict Transitions: An Overview

Ibrahim Ahmed Elbadawi

In the two to five years immediately following end of conflicts, UN peacekeeping operations have succeeded in maintaining peace, while income and consumption growth rates have been higher than normal and recovery on key education and health indicators has been possible. Aid also has been super-effective in promoting recovery, not only by financing physical infrastructure but also by helping in the monetary reconstruction of postconflict economies. However, sustaining these short-term gains was met with two difficult challenges. First, long-term sustainability of peace and growth hinges primarily on the ability of postconflict societies to develop institutions for the delivery of public goods, which, in turn, depends on the capacity of postconflict elites to overcome an entrenched culture of political fragmentation and form stable national coalitions, beyond their immediate ethnic or regional power bases. Second, after catch-up growth runs its course, high levels of aid could lead to overvalued real currencies, at a time when growth requires a competitive exchange rate and economic diversification. Successful peace-building would, therefore, require that these political and economic imperatives of postconflict transitions be accounted for in the design of UN peacekeeping operations as well as the aid regime.

Transitioning from civil war to sustainable peace is complex. Success starts with basic transitions: from warfare to peacekeeping to ensure the security of a country and its communities; from large armies to public agencies of law and order to ensure the security of individuals and their property rights; from military- to civilian-dominated state institutions. These transitions are necessary to effectively manage aid and establish the policies and institutions needed for sustained and widely shared growth.

The five articles of this symposium deal with postconflict transition. The articles address UN peacekeeping operations and the prospects for sustainable peace, the role of policy credibility in preventing war and promoting peace, country performance in the aftermath of civil war, and the consequences of aid for macrostability and growth. All of the articles analyze panel data of global samples of conflict and nonconflict countries covering at least 30 years, drawing on extensive new evidence on postconflict economies.

Ibrahim Elbadawi is a lead economist in the Development Economics Research Group of the World Bank; his email address is ielbadawi@worldbank.org.

THE WORLD BANK ECONOMIC REVIEW, VOL. 22, NO. 1, pp. 1–7 doi:10.1093/wber/lhn002
Advance Access Publication February 20, 2008

I. Peacebuilding and Political Credibility

Two articles deal with peacebuilding and the related restoration of political credibility.

Peacebuilding and UN Peacekeeping Operations

The article by Nicholas Sambanis sets the stage by examining the effectiveness of UN peacekeeping operations in maintaining "sustainable" or "participatory" peace (that is, the capacity of a sovereign state to resolve by means other than war the natural conflicts to which all societies are prone). Peace involves not just the end to war but the absence of significant residual violence, undivided sovereignty, and a minimum level of political openness.

According to Sambanis's model, the probability of peacebuilding success depends on the degree of hostility and the extent of local and international competencies for peacebuilding.[1] Maximizing the peacebuilding space requires greater commitment by the international community.

Holding other control variables at their sample means, Sambanis estimates that going from facilitative (monitoring and reporting) to transformational (multidimensional, enforcement, and transitional administration) peacekeeping increases the probability of peacebuilding success by 36 percent.[2] He also investigates the long-run impact of UN missions on the duration of peace, defined as the absence of war (or "negative peace"). Using a survival probability model, he finds that UN intervention is still highly significant and reduces the risk of peace failure by 50 percent. But the strongest influence on reduced proneness to a new war outbreak, consistent with much of the literature on civil war onset, is associated with local capacity variables. Fast-growing, rapidly diversifying, and high-income economies are far more likely than others to experience longer peace duration, even when hostilities remain high.

Political Credibility and Peacebuilding

Philip Keefer suggests lack of political credibility as an additional, if not alternative, factor influencing the risk of civil war.[3] He argues that because weakly credible leaders cannot persuade the majority of their citizens to believe their promises, they have no incentive to make broad-based programmatic policies. Instead, they are likely to undertake policies that benefit the few groups that believe their promises. This tendency leads to the underprovision of public

1. Doyle and Sambanis (2000) first developed this insight.

2. See Doyle and Sambanis (2006) for extensive discussions of mandates of UN peacekeeping operations.

3. The recent empirical literature has been dominated by the debate over whether the hazard of the onset of civil war is better explained by "greed" or "grievance" factors. The dominant view, espoused by Fearon and Laitin (2003) and Collier and Hoeffler (2004a), is that greed factors are more important (see Bodea and Elbadawi 2007 for a critique of this view).

goods, the overprovision of private goods, and high levels of corruption. In such a distorted environment, he argues, citizens are less likely to resist potential insurgency or other efforts to unseat incumbent elites. Lack of political credibility also raises the risk of conflicts by weakening resistance to an incipient counterinsurgency. Moreover, weakly credible leaders are incapable of mounting effective counterinsurgency efforts, because they are inept at making credible commitments to counterinsurgents.

Keefer measures political credibility using continuous years of competitive elections for democracies and the presence of institutionalized or programmatic political parties for autocracies. Embedding these two variables in a standard model of civil war onset, he obtains broad support for his hypothesis across several samples.

Given the connection between civil war and the accumulated effects of low or negative growth, political credibility and the provision of public goods—and hence growth—should have strong implications for peacebuilding. Keefer's contribution is important because it goes to the deep institutional issue of what determines the provision of public goods, growth, and the risk of conflict as well as the prospects for sustained peace when war ends.

II. Performance and Policies in Postconflict Economies

Civil war is considered the most devastating type of conflict, because it has much more destructive effects on economic activities, social capital, and institutions than multistate wars do. The collapse of income and economic and political insecurity associated with civil wars causes agents to divert their assets and factors of production toward subsistence sectors and to move their capital out of the country (Collier 1999). The associated loss of national income reduces revenues at the very time that public investment is needed to rebuild and protect the country.

The last three articles deal with the quantitative economic performance of postconflict countries. The first examines basic indicators of economic performance, health and education, political development, demographic trends, and conflict and security issues before and after civil wars. The other two explore two neglected macroeconomic aspects of postconflict policies: the role of aid with respect to "monetary" reconstruction and the equilibrium path of the real exchange rate (RER).

The Aftermath of Civil War

Siyan Chen, Norman V. Loayza, and Marta Reynal-Querol analyze the cost of war and the prospects for recovery in the aftermath of war in cases in which resolution of conflict led to at least 10 years of uninterrupted peace. The event framework is convenient for assessing how postconflict countries perform both absolutely and relative to two control groups, one drawn from a global sample of comparable nonconflict countries, the other from the

geographic region of the conflict country. The most striking result pertains to the tremendous postwar surge in per capita income, which rises about 2.4 percent above the prewar level. The strong recovery in income is linked to the high potential for catch-up growth following the destruction of war. The nonmonotonic trend of per capita growth suggests that aid flows are time sensitive (Collier and Hoeffler 2004b). The growth rebound is also associated with a rapid decline in inflation and the realignment of fiscal policy away from military expenditure.

Interestingly, in some areas of social development (such as infant mortality and primary-school enrollment), postconflict countries have made progress despite war. The authors suggest that this progress may reflect the ability of these countries to partake in the global public goods associated with innovations in medicine and service delivery in education and health. Despite such progress, the cost of war is substantial, as reflected in the absolute and relative decline in income in conflict countries and their slower progress in improving political and economic governance or social indicators tied to combatants (such as adult male mortality and secondary-school enrollment).

Aid and "Monetary" Reconstruction

Christopher Adam, Paul Collier, and Victor Davies discuss the financing implications for the government of the decline in the demand for money associated with reduced income and asset substitution away from domestic money, which, they argue, is likely to worsen the trade-off between seigniorage and inflation. Because the government needs to finance higher military expenditure during conflict and borrowing is not likely to be an option, however, the discount rate—and the inflation rate the government is willing to tolerate—increases. As a result of the slow recovery in the demand for money in the aftermath of conflict and the high level of financing, inflation is not likely to decline even after war ends. The key insight of this article is that without aid, conflict and postconflict countries are likely to experience explosive inflation; aid can help reestablish the preconflict equilibrium level of inflation. In this sense, aid can finance postconflict "monetary" reconstruction akin to its better known role with regard to physical reconstruction in the aftermath of war.

The empirical results suggest that postconflict aid stimulates the demand for money—directly, by substituting for seigniorage, and indirectly, by restoring income growth and supporting a modest portfolio shift in favor of domestic money. Simulations of the model suggest that plausible levels of postwar aid sustained over a 10-year period would restore real money balances to about 2.8 percentage points of gross domestic product (GDP) (an increase of about 50 percent over the end-of-conflict level) and cut inflation by almost a half, to just over 10 percent a year.

Aid and Real Exchange Rate Competitiveness

During civil war, the same factors that led to the decline in income and the demand for money disproportionately affect the tradables sector. The extent of recovery in this sector is thus likely to have a significant effect on postconflict growth. Aid can directly contribute to the growth of the tradables sector as well as to nontradables productive and service sectors, such as infrastructure and financial services.

Elbadawi, Kaltani, and Schmidt-Hebbel provide evidence that despite receiving substantial aid flows, postconflict countries experienced only moderate RER overvaluation during the postconflict cycle. Although aid is robustly associated with RER in the long run, it is not a major factor in explaining the disequilibrium behavior of the RER.[4] Using the RER misalignment index in a growth model encompassing aid effectiveness, they corroborate evidence that aid promotes growth but with diminishing returns. They also find support for the views that RER overvaluation has direct negative level effects on growth and that financial development is positively associated with growth. Accounting for these level effects and other traditional growth controls, they find that RER overvaluation further reduces growth through its interaction with aid. In contrast, the interaction effect between RER overvaluation and financial development is positively associated with growth. Simulations of the effect of a one standard deviation increase in RER overvaluation suggest that the loss in per capita growth for postconflict countries that are highly dependent on aid and have weak financial sector could be as high as half a percent.

III. Design of Peacekeeping Operations and Timing and Delivery of Aid

UN peacekeeping operations—the dominant instrument for peacebuilding in the post-Soviet era—have succeeded in maintaining peace in the two to five years after the end of civil wars. Postconflict countries have enjoyed higher than normal growth rates in income and consumption. Development aid has been particularly effective in promoting recovery, not only by financing physical infrastructure but also by helping in the monetary reconstruction of postconflict economies.

Unfortunately, these short-term gains are not always sustained in the longer run, especially after the UN mission ends. Although the support of the United Nations, the World Bank, and other external actors remains critical, the long-term sustainability of peace and growth hinges primarily on the ability of postconflict societies to develop institutions for the delivery of public goods.

4. This is likely to be partly because, although aid remained high in postconflict countries, it was sustained over the 10-year postconflict period. Like most aid-recipient countries, these countries may also have managed their aid in a way that protects their macroeconomic competitiveness (Elbadawi, Kaltani, and Soto 2007).

Creating such institutions is particularly challenging in these countries, however, for two main reasons. First, most peacebuilding initiatives are based on wealth- and power-sharing agreements across regions and communities within a country. In the short-run, such agreements may be necessary to redress historical grievances and hence promote peace. In the longer run, however, they may inculcate a political culture of subnational retrenchment and entitlements that impedes the ability of political elites to establish viable national coalitions. Because a fragmented political class is not likely to be able to make credible promises outside its immediate region or ethnic group, public goods are underprovided, corruption is high, growth is suboptimal, and the risks of future conflicts may be high. Second, after postconflict economies exhaust their catch-up growth potential, high levels of aid could lead to overvalued real currencies, at a time when growth requires a competitive exchange rate and economic diversification.

Given the political and economic imperatives of postconflict transitions, how UN peacekeeping operations are designed, mandated, and supported and how and when aid is delivered appear to be the keys to success.

Funding

This article and the other five in this symposium are products of the Growth and Macroeconomics Team, Development Economic Research Group of the World Bank, and are part of the project Post-conflict Transitions, focusing on development issues particularly relevant to countries recovering from civil wars. This project was funded by a generous grant from the multi-donor Knowledge for Change Program (KCP) Trust Fund.

References

Adam, Christopher, Paul Collier, and Victor Davies. 2008. "Postconflict Monetary Reconstruction" *World Bank Economic Review* 22(1). Advance Access published January 14, 2008, doi:10.1093/wber/lhm020.

Bodea, Cristina, and Ibrahim A. Elbadawi. 2007. "Riots, Coups and Civil War: Revisiting the Greed and Grievance Debate." Policy Research Working Paper 4397. World Bank, Washington, D.C.

Chen, Siyan, Norman V. Loayza, and Marta Reynal-Querol. 2008. "The Aftermath of Civil War" *World Bank Economic Review* 22(1). Advance Access published February 10, 2008, doi:10.1093/wber/lhn001.

Collier, Paul. 1999. "On the Economic Consequences of Civil War." *Oxford Economic Papers* 51 (1): 168–83.

Collier, Paul, and Anke Hoeffler. 2004a. "Greed, Grievance and Civil War." *Oxford Economic Papers* 56(4):563–95.

———. 2004b. "Aid, Policy and Growth in Post-Conflict Societies." *European Economic Review* 48(5):1125–45.

Doyle, Michael W., and Nicholas Sambanis. 2000. "International Peacebuilding: A Theoretical and Quantitative Analysis." *American Political Science Review* 94(4):779–801.

———. 2006. *Making War and Building Peace: United Nations Peace Operations*. Princeton, N.J.: Princeton University Press.

Elbadawi, Ibrahim A., Linda Kaltani, and Raimundo Soto. 2007. "Real Exchange Rate Misalignment in SSA: How Serious, How Dangerous?" Development Economic Research Group, October, World Bank, Washington, D.C.

Elbadawi, Ibrahim A., Linda Kaltani, and Klaus Schmidt-Hebbel. 2008. "Foreign Aid, the Real Exchange Rate, and Growth in the Aftermath of Civil Wars." *World Bank Economic Review* 22(1). Advance Access published February 7, 2008, doi:10.1093/wber/lhm024.

Fearon, James, and David Laitin. 2003. "Ethnicity, Insurgency, and Civil War." *American Political Science Review* 97(1):75–89.

Keefer, Philip. 2008. "Insurgency and Credible Commitment in Autocracies and Democracies." *World Bank Economic Review* 22(1). Advance Access published January 5, 2008, doi:10.1093/wber/lhm019.

Sambanis, Nicholas. 2004. "What Is Civil War? Conceptual and Empirical Complexities of an Operational Definition." *Journal of Conflict Resolution* 48(6):814–58. Advance Access published January 31, 2008, doi:10.1093/wber/lhm022.

———. 2008. "Short- and Long-term Effects of United Nations Peace Operations." *World Bank Economic Review* 22(1).