

Post-Conflict Economic Recovery

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1. Introduction

Civil wars occur disproportionately in low-income countries with stagnant or declining economies. Superficially, the post-conflict situation in such countries looks very similar to the general problem of state-building in low-income environments with poor policies, weak institutions, and limited local capacity. Indeed, until recently, the organizations dedicated to economic development did not systematically distinguish post-conflict settings as requiring a distinctive approach. Yet policy in the post-conflict phase needs to be distinctive: both that of the government and that of the donor agencies. It should not be simply development as usual. Of course, policy always needs to be tailored to circumstances, and circumstances differ massively between post-conflict countries. The purpose of this paper is not to lay out post-conflict policies for economic recovery as a set of iron principles, but rather to show some features which generally do need to differ systematically from those appropriate for equally poor countries that are not post-conflict. The suggestions in this paper are not a substitute for thorough knowledge of a particular situation and may well be seriously inappropriate in particular instances. They are based on statistical analysis of what is currently an inevitably limited number of post-conflict observations. Nevertheless, they may be a useful supplement to practitioner expertise which is itself necessarily limited: service in the reconstruction of East Timor may have only limited applicability to the reconstruction of Afghanistan. The new Peace Building Commission provides the opportunity to introduce a greater degree of standardization into post-conflict interventions while differentiating them from other situations in which the state is in some sense 'failing'. Indeed this will presumably be one of its tasks.

A key reason why policy should be distinctive in post-conflict settings is that the legacy of civil war implies that objectives should be distinctive. One legacy is that there is a high risk of further violent conflict. Typically there is 39% risk that a peace will collapse within the first five years, and a 32% risk that it will collapse in the next five years (Collier and Hoeffler, 2004a). These risks are much higher than for the typical low-income country with a history of peace – the five-year risk for such a country is 'only' around 14%. These high risks of conflict relapse are partly because the countries that have had a conflict have underlying and persistent characteristics such as low income, 'ethnic dominance'¹, and natural resource dependence that make them prone to conflict. Additionally, something happens during conflict that increases the risks. Approximately, the high level of risk is equally due to these two factors – pre-conflict characteristics and the legacy of the conflict.

It is imperative to bring down this initially high risk of further conflict, both as an objective in itself and because perceptions of high risk will be deeply damaging to economic recovery. Hence, all policies have to be assessed in terms of whether they will reduce or worsen this risk.

¹ 'Ethnic dominance' can occur where ethnicity is central to social identity. Statistically, it is defined as the largest ethnic group being between 45% and 90% of the society (Collier and Hoeffler, 2004b). In effect, the largest group has the potential to dominate minorities, and the minorities are sufficiently large to be worth exploiting. Where religion is central to social identity it can function in the same way as ethnicity.

A second legacy of civil war is that the economy is severely damaged. The typical conflict reduces GDP relative to counterfactual by around 15% by the end of the conflict. The adverse economic legacy of civil war is sometimes obvious: capital – physical, human and social - gets destroyed. Typically, skills were already in short supply prior to conflict, but, as I will argue, in post-conflict conditions a major temporary collapse in the supply of skills confronts a major temporary increase in their demand. Some effects are more subtle and so more likely to be missed in prioritizing policy. Government expenditure gets diverted away from economic services into the military. Private economic actors shift their capital abroad. The government resorts to debt accumulation in order to finance the need for military spending and more generally sacrifices future gains from good economic policies to snatch short term gains from policy deterioration. Because of increased uncertainty time horizons shorten, reducing the value of reputation. This, combined with the decline in policing, encourages opportunism and predation. In response to all these developments, people shift their economic activities into subsistence, which is less reliant upon other parts of the economy.

In this paper I focus on what economic actions the post-conflict government and international actors – donors and security providers – can undertake to address these distinctive problems. What policies are likely to be appropriate to reduce the risk of repeat conflict and to speed the economic recovery?

2. Priorities for the post-conflict government

Bringing down the risk of conflict – does military spending work?

During the conflict skills, organizations and investments build up that are only of use through violence. Peace is costly for these interests and so they will look for opportunities to revert to conflict. In practical terms, these interests have to be opposed by military force. Typically, post-conflict governments do exactly this by maintaining very high levels of military spending. Indeed, spending on the military during the post-conflict decade is almost as high as during the conflict, and nearly double its normal peacetime level.

Post-conflict governments cannot be blamed for prioritizing their spending in this way, nor donors for financing it. The typical justification is the sensible one that risks are indeed high: governments are well aware that they face spoilers, both within the society and harbored by neighbors. The question is not an ethical one, but rather a brutally practical one: is such high military spending effective in deterring further rebellion?

Together with Anke Hoeffler, I have tried to answer this question statistically (Collier and Hoeffler, 2005a). The task is difficult because military spending in post-conflict settings tends to be highest where the risks are highest. Hence, an incompetent researcher can blunder into the mistake of confusing the direction of causality: in fact, high risk causes high spending, but without proper precautions this will be misinterpreted as high

spending causing high risk. The proper precautions are to consider only those components of military spending that are completely unrelated to the risk of civil war.² We find that high military spending by the government in post-conflict societies is counterproductive – it significantly and substantially *increases* the risk of further conflict. This adverse effect is distinctive to military spending in post-conflict situations. Why might military spending in post-conflict situations have this distinctive effect?

We get some insight from the literature on the problems of achieving and sustaining a peace settlement (Walter, 2004). This stresses what economists term the ‘time consistency’ problem. As the peace is prolonged rebel forces inevitably decline, whereas the government can keep its own forces together. After all, the normal state for a government army is to be at peace, whereas there is no example in history of a rebel army staying intact as a fighting force over a prolonged period of peace. Thus, as the peace continues, the government has a growing temptation to renege on the explicit or implicit terms of any settlement. Indeed, the government is unlikely to have been united in its enthusiasm for a settlement: there will be voices urging that now is the time to abandon aspects of the settlement that it regarded as unreasonable. Conversely, since the rebels will be well aware how the balance of power is changing, there will be those on the rebel side who were never peace enthusiasts who will be urging a preemptive return to war. Even those rebels who have supported the peace will be worried. They will be watching government behavior closely for signs of its intentions. Of course, the government can, and should, make reassuring statements, but the problem with words is that they are relatively easy to reverse. The key aspect of government behavior is those actions which cannot be easily reversed and which are therefore good leading indicators of government intentions. Military spending is the central such action. A government which intends to renege upon a settlement does not drastically cut its military spending: on the contrary, aware that renegeing will increase the risk of rebellion, it needs to maintain its military capability at a high level. A deep cut in military spending is therefore an excellent signal that a government does not intend to renege. It can be read as such by rebels, and used by those rebels who supported the peace to win the argument against those rebels that did not. Conversely, the maintenance of high military spending is inadvertently a signal that the government means to rely upon repression.

The most common policy error of post-conflict governments is to maintain military spending around conflict levels. Whether due to the explanation given above or for some other reason, a deep cut in military spending radically reduces the risk of further conflict. Hoeffler and I simulate the effect of different post-conflict spending strategies upon risk. We find that a policy of deep cuts would reduce the risk from around 39% to around 24%. Nor is it hypothetical: this was precisely the strategy of the post-conflict government of Mozambique. Not only has Mozambique remained at peace, but it has had very fast growth. A part of this growth has been because the cut in military spending has released resources for economic priorities.

² Unfortunately, this technique cannot be given a full description accessible to a non-economist that is sufficiently brief for a footnote. However, in summary, the researcher estimates an ‘instrumentation regression’ which predicts military spending, including some factors which are unrelated to the risk of civil war, and then uses this prediction in the regression of the risk of conflict.

If large military forces under the control of the post-conflict government actually increase the risk of conflict, what should be done? The government and its supporters can hardly be defenseless given that spoilers are to be expected. I think, however, that this is a proper role for international actors and I return to it below.

While a radical downsizing of the army therefore makes a lot of sense, this may not need to be as expensive a process as is commonly the case with programs of DDR. Two very different statistical studies of demobilized soldiers both tend to the conclusion that complex and protracted reintegration projects are either unnecessary or ineffective. A study of demobilized soldiers in Uganda, where demobilization provisions were rudimentary, found that contrary to popular concerns there was generally no tendency for demobilization to increase crime (Collier, 1994). An increase in crime was discernable only in the one district for which soldiers had stated prior to demobilization that they had no access to land. A second and more recent statistical study focused on the reintegration of the beneficiaries of DDR programs in Sierra Leone, where such programs had become substantial. It found that the programs had had no discernable effects on the ability to reintegrate (Weinstein, 2005). To my knowledge, these are currently the only statistical studies of DDR programs. Over the past decade DDR programs have become an industry with the consequent vested interests in their further expansion. While the statistical evidence is currently far too thin to conclude that they are excessive, it does suggest that a serious quantitative evaluation using modern techniques of random sampling is overdue.

Managing expectations

Peace commonly occurs in the context of hype. All the normal woes of poverty will have been attributed to the overarching problem of war. Additionally, donors and peace negotiators will – quite sensibly – have tended to exaggerate the immediate benefits of peace in order to get the conflicting sides to agree to peace. Unfortunately, all this tends to produce exaggerated short term expectations of what peace can bring in terms of economic benefits. The bitter reality is that whereas bad politics can destroy an economy with great speed, even the best politics can only facilitate a gradual recovery. This can rapidly lead to a sense of disillusion and skepticism on the part of the population. People are also habituated, during conflict, to a short term perspective: this is a consequence of high uncertainty. The best the government can do perhaps is to articulate a credible medium-term growth strategy: what the economy could look like after one or perhaps two decades. Such a credible medium term vision was implicit in Eastern and South-Eastern Europe through the prospect of accession to the European Community. It has clearly proved valuable, both as a stabilizer and as an incentive for reform. Few post-conflict societies have such a high-credibility ready-made vision, but this only increases the importance of government efforts to create one.

Other than reducing military spending the most effective thing that a post-conflict government can do to reduce conflict risk is to accelerate economic recovery. If the growth rate can be raised, it is if anything even more effective in reducing risks than it is in conflict prevention (Bigombe et al, 2001). Growth directly reduces conflict risk and

also cumulatively raises income and diversifies the economy, both of which also reduce risk. The instruments that the government has to raise growth are a range of economic policies. These policies appear to have no direct systematic effect on the risk of conflict, but indirectly lower risks by raising growth. How should these be deployed?

Raising the growth rate through policy reform

The inheritance from conflict is that overall economic policy and institutions are typically very poor. Commonly, over-regulation of formal economic activity coexists with a large illegal economy; there are high trade barriers, widely evaded by criminals; the budget is in deficit and public expenditure is badly structured and poorly executed; commercial law is unreliable, and property rights are confused. Such a legacy poses a large agenda for reform and institution-building. Further, growth during the post-conflict decade is much more sensitive to such policy reforms than in other circumstances. This can be seen from the very wide range of post-conflict growth outcomes – some countries recover rapidly, others continue to decline. So, economic policy is much more important in post-conflict settings than in other settings. Further, in one important sense – political constraints – reform is relatively easy. Together with Lisa Chauvet I have analyzed statistically the likelihood of successful ‘state-building’: a substantial and sustained improvement in policies and institutions starting from a situation in which they are very weak (Chauvet and Collier, 2005a, 2005b). We rely upon the World Bank ratings. In respect of policies these ratings cover macroeconomic management, such as inflation; structural policies, such as trade restrictions and the regulation and scope of private activity; and social inclusion, such as broad-based education and health care. In respect of institutions they assess the standard of honesty and efficiency in governance. A ‘substantial’ improvement would be the sort of transformation that Uganda went through during the 1990s, with the country starting from a position of unambiguous weaknesses and attaining a standard with, while it might not be good, is not manifestly a severe handicap to development. We have included all low-income countries with such policies and institutions, whether they are post-conflict or not, covering the period 1975-2003. We find that other than in post-conflict conditions the chances of such a turnaround are very low: conditions may be bad but they are stable. By contrast, during the post-conflict decade the chances of a quantum improvement are much higher. Post-conflict conditions provide the political opportunity for radical improvement in policies and institutions. A likely reason for this is that the political equilibrium that usually blocks the reform of dysfunctional policies and institutions has been broken. Vested interests may be weakened by conflict, and in the aftermath of peace people expect change. Starting from its medium term vision, the government should therefore chart out step-by-step reforms that get there. While the political conditions for radical reform are likely to be propitious, the technical capacity for change is likely to be radically limited. Having acknowledged this, for the moment I defer the discussion of how to resolve it.

Which policies are priorities? Some actions are obvious, for example, the reconstruction of damaged infrastructure. Other priorities are less obvious. For example, the retreat into subsistence needs to be reversed and this reintegration of the rural economy into the market may require both marketing reforms and rural roads. The rise of opportunistic

behavior will need to be countered by rebuilding institutions in both the private and the public sectors.

In the private sector at a minimum opportunism should be countered by a swift resolution of property rights, supported by the establishment of a functioning system of commercial law to enforce contracts. The resolution of property rights may help to reverse capital flight. Typically, capital flight continues during the post-conflict decade, but in some cases governments have managed to attract substantial repatriation during the decade.

In the public sector the effective check on opportunism is not the legal system but a set of procedures which contribute to accountability. Accountability is a public good and like all public goods is radically under-supplied because nobody has an incentive to provide it. The decline in the ability to cooperate typical of conflict further undermines the capacity to deliver public goods. Accountability faces an even more severe problem than other public goods in that its supply faces not just a free-rider problem: those with power have an interest in actively opposing accountability because of the restraints that it would impose upon their conduct. Generating accountability in post-conflict conditions is therefore difficult.

There are three processes for building accountability: top-down, bottom-up, and sideways. All three are needed. Top-down involves bureaucratic systems of authorization and audit. During conflict these are usually opportunistically undermined and restoring them requires getting into the bowels of civil service procedures: who authorizes whom to do what, based on what information, and supported by what paper trail? Reform of these practices has to maintain a delicate balance: recreating responsibility, without paralyzing civil servants into defensive inactivity. Bottom-up involves giving citizens power over service providers, such as having representation on school boards and electricity generating companies. The empowerment of citizens requires information and this is aided by a free and competent press, something that is surely absent in post-conflict conditions. Citizen power generally collapses during civil war if, indeed, it ever existed in the first place. Sideways accountability involves generating some peer pressure. For this there must be peers, so that the decision system must be sufficiently decentralized that different parts of government can reasonably be compared against each other. Given this, peer pressure works if the peer group shares information on relative performance: nobody wants to be worst. The government's instinct after civil war is often to concentrate power so that there are insufficient peers, and even where there are decentralized entities they may not see themselves as a peer group but be fragmented by wartime divisions.

Effective accountability is the best defense the society has that its politics will not degenerate into patronage. If political parties cannot embezzle public funds they simply cannot finance a patronage system and so are more likely to be driven to compete for votes by effective provision of public goods. In the absence of accountability, given the conditions of low income, valuable natural resource rents, and ethnic voting allegiances that are common in post-conflict settings, the politics of patronage is likely to triumph over the politics of ideals. The post-conflict period is the best time to get accountability

established. People expect change, and so change is easier. Once patronage politics has taken hold, it will be defended by the vested interests it creates.

Among the broad categories of macro, structural and social policies, there is some evidence as to which should be priorities (Collier and Hoeffler, 2004b). Inclusive social expenditures such as expansion in primary health care and education are atypically important for growth in post-conflict settings, whereas macro policy is atypically less important. This does not mean that macroeconomic policy is in some absolute sense less important than social inclusion. The point is simply that comparing a post-conflict society with an otherwise similar but peaceful failing state, there should be relatively greater emphasis upon social inclusion and relative less on macroeconomic management. The legacy of collapsed public health systems and the high levels of illness consequent upon the mass movement of populations typical of conflict conditions provides one explanation for the high priority that should be attached to expenditures on public health. A further reason for the prioritization of social expenditures relates to the signaling problem discussed above. High expenditures on social inclusion signal that the government does not intend to run a patronage system for its core support base, and so reinforce the signal given by a sharp reduction in military spending.

3. Priorities for international actors

International actors face the same two core possible areas for intervention – military provision and raising the growth rate. However, they have different instruments from the government – external military force and aid.

Risk reduction through external military force

Given that some military force is needed in post-conflict situations, but that force provided by the post-conflict government is counter-productive, there is an inescapable need for external military force. However, UN forces operating under Chapter VI rules have not proved very successful. While countries are willing to supply forces under these terms, they are often not willing to see their troops exposed to significant levels of risk, and Chapter VI does not permit an adequate level of force to be deployed to discourage rebel groups.

A spectacular demonstration of this problem was the capture by the RUF of 500 UN troops in Sierra Leone. The more recent deployment of British troops, under Chapter VII rules has, by contrast, been remarkably successful. The cost of the operation, over a four-year period, has been only around \$180m, and the pay-off has already been four years of secure peace in what was surely a very high risk situation. If the costs of the typical civil war are taken to be of the order of \$50bn (Collier and Hoeffler, 2004), the pay-off to this respite from risk, even if only temporary, is enormously greater than its costs. The Sierra Leone model is therefore worth taking seriously. Its basic elements are the participation of a power with sufficient interest in the situation to risk taking casualties, an invitation from the government, and authorization under the UN to use sufficient force to secure the peace, not merely for the immediate self-defense of troops (i.e. Chapter VII).

In contrast to the British intervention in Sierra Leone, the French intervention in Cote d'Ivoire has to date been radically less successful. Arguably, this intervention came too late: the proper moment was probably immediately following the military coup d'etat against President Bedie. The French authorities had the military capability to reverse this coup, but decided not to do so, partly because of hesitations over neo-colonialism, partly because the incoming military leader, General Gai, had strong links with the French military, and partly because he promised to hold elections within six months. Surprisingly, the French government failed to recognize the 'time consistency' problem inherent in this promise. Once the French had missed their window of legitimate opportunity to put down the coup, General Gai was able to make a 'modest amendment' to the terms of the forthcoming election: he himself would be a candidate, and all other candidates of any importance would be debarred. From this point on there was no legitimate government to restore and so no overarching objective for external military intervention.

Implementing change through technical assistance and capacity building

The reform of economic policies and institutions cannot happen simply by decree. Even in the most hopeful post-conflict circumstances, while one or two ministers may appreciate the need for economic reform, there will be a severe shortage of the people qualified to implement reforms. Typically, even prior to conflict such countries were acutely short of these people and during conflict the more qualified citizens are those most likely to leave. Further, those few in the country are unlikely to be attracted to the public sector: they are more likely to be recruited by international NGOs and donor agencies. Yet the reform of economic policies and the building of economic institutions is intensive in skilled people. This combination of an acute lack of supply with an explosion of demand has the potential for chaotic change that is at best ineffective and may even become difficult to undo.

The most realistic solution is a massive influx of technical assistance. In our study of turnarounds, Chauvet and I indeed find that large-scale technical assistance very early in an incipient reform process is highly cost-effective in improving the chances of achieving and sustaining a substantial improvement. It seems reasonable to suppose that gradually over the decade the provision of technical assistance should be replaced by a corresponding capacity-building effort. However, capacity-building is not the appropriate response to the initial skill shortage of crisis proportions. First, some of the surge in demand for skills is temporary. Reform of policies and the building of institutions are both highly intensive in skills that are scarce even internationally, and largely unnecessary once conditions have been restored to normal. A normal society simply does not need the skill-set that is appropriate for rapid change. Second, capacity building is too slow a process to meet the acute needs for skills that are concentrated in the early years of the post-conflict period. For both reasons the skill crisis is best resolved by temporarily importing foreign technical assistance. The exception to this is capacity-building *outside* the civil service. Recall that a crucial component of accountability is bottom-up scrutiny by civil society. This function cannot be substituted, even temporarily, by foreign

technical assistance. It is therefore, paradoxically, more urgent to build capacities outside the civil service than within it.

Capacity-building within the public sector is, of course, necessary. However, it should probably attempt neither to recreate the civil service as it was, nor even to create a conventional structure of ministries. In some post-conflict situations, such as Liberia and the Democratic Republic of the Congo, the attempt to build genuinely functioning ministries for service delivery is likely to be forlorn. A better approach may be to use a leapfrog technology, analogous to the way in which mobile phones have obviated the need to establish land-line systems. Even within the OECD societies the trend is to establish quasi-independent public agencies that undertake contracting for services. Such agencies, or Independent Service Authorities (ISAs), can be held to account by government, donors and civil society, but they would not be within the civil service. This would free them to hire afresh under far superior incentive systems. ISAs would not themselves deliver services. Rather, their role would be to contract with multiple distinct types of service provider – private, NGO, and local governments. The core functions would be competitive allocation of contracts and rapid and continuous evaluation of performance. Thus, the key capacities to be built would be in contracting and in evaluation, skills that are quite different from those of a traditional civil service.

Accelerating growth through aid

Historically, aid has not been significantly higher taking the post-conflict decade as a whole than if there had been no conflict, although it is significantly higher in the first two or three years. Recent analysis of the effect of aid on growth in post-conflict situations (Collier and Hoeffler, 2004b) finds that aid is super-effective in raising growth in post-conflict situations. However, this only applies during the middle of the decade. Hence, from the perspective of growth, aid should taper in during the first few years post-conflict, whereas actually it tapers out. During its present peak in the early post-conflict years, it is not particularly effective. Probably this is because although needs are great, capacities to spend aid effectively are very limited. Hence, the aid opportunity post-conflict is for bigger aid budgets overall, but better timed. Since politically the moment for committing to post-conflict aid is clearly around the time of the peace settlement, the right approach is probably to allow much greater flexibility in the timing of aid disbursements. Long lags between commitment and disbursement should become normal in post-conflict situations.

Unfortunately, the enhanced growth effect of aid is dependent upon the quality of policy, governance and institutions. That is, aid effectiveness is much more sensitive to these characteristics in post-conflict situations. Normally effectiveness increases quite rapidly during the decade. This reinforces the effect that aid should taper in rather than tapering out. It also provides a rationale for focusing international attention heavily upon improving these characteristics. Typically, considerable attention has been paid to political design in post-conflict situations, especially in encouraging elections. While this may be desirable in itself, the evidence is that elections per se do not reduce risks in post conflict situations. Indeed, changes in political arrangements appear actually to increase

the risk of renewed conflict. The implication is not, of course, to forget about promoting democracy, but rather not to see it as broader than merely electoral competition. Accountability and checks and balances are the hidden part of mature democracy. Competitive elections can be put into place very rapidly, as in Afghanistan and Iraq. Accountability cannot be put in place so rapidly, and it lacks the glamorous urgency of an election. Yet without it, as I have argued, electoral competition will deliver the divisive and growth-inhibiting politics of patronage.

Encouraging reform through international models of economic governance

The enormous importance of good economic policies and the restoration of accountability in post-conflict settings, and its previous neglect, suggest that it may be useful for the international community to establish models of reasonable practice. The models might cover key areas such as the transparent management of the budget, and accountability to the domestic population for public expenditure. While donors are now rightly reluctant to insist upon ad hoc policy reforms, the existence of such internationally agreed models would enable donors to coordinate around them, and would also assist governments in knowing what they should be aiming for.

In many post-conflict settings the governance of resource rents is particularly important. Post-conflict societies are likely to have valuable resource rents because this is indeed one of the risk factors in initiating conflict. Further, the post-conflict situation, with its resolution of property rights and restoration of peace, is likely to induce companies to prospect for new deposits and to work previously known but untapped deposits. For example, Timor Leste will receive large new revenues from offshore gas, the post-conflict government of Southern Sudan receives around \$1bn per year in new oil revenues, and oil prospecting is underway off the coasts of Liberia, Cote d'Ivoire and Sierra Leone. Managing such revenues is difficult, and the low-income democracies typically do it even worse than other types of government (Collier and Hoeffler, 2005b). An international model of good economic governance is urgently needed specifically for these situations. What should it contain? Reasonable harnessing of resource rents requires four steps.

The first is the process by which contracts are awarded to companies in the extractive industries. The record here is dreadful. A recent study of international diamond companies in Angola investigated the effect of peace upon their stock prices (Guidolin & La Ferrara, 2004). Specifically, taking all the diamond companies quoted on the New York market that had interests in Angola, the study estimated the impact of news of the death of Jonas Savimbi, and of the subsequent peace, on the price of their stocks. It found that peace significantly *lowered* stock prices: these companies were indeed 'doing well out of war'. More generally, contracts should be awarded in a transparent and competitive context, as is standard practice in developed societies: an international template of standard practice should stipulate the parameters of what is acceptable.

Having policed how contracts are awarded, the second concern for a model of good practice should be what the contracts say. Here, the key issue is the distribution of the

price risk. Commodity prices are volatile and if the post-conflict government bears the risk it will be faced with revenue volatility that is likely to be destabilizing. At present, this is what happens: ridiculously, massive international companies are passing on the price risk to incompetent, impoverished and fragile governments. A model should require a more reasonable distribution of this risk. If companies do not want to bear it, they are of course free to use their sophisticated market knowledge to enter derivatives contracts that pass the risk on to others. No post-conflict government has the competence to engage in such derivatives contracts.

Having policed what contracts say, the next aspect is that payments and the expenditures which they support should be transparent. The first half of this has been the focus of the 'Publish What You Pay' campaign, and its important incarnation in the Extractive Industries Transparency Initiative. However, transparency in revenues is only an input into the scrutiny of expenditures. Thus, a model needs to spell out the parameters of budgetary transparency.

The final component of a model is how revenue volatility should be managed. At present, price crashes lead to growth collapses which substantially heighten the risk of conflict. Better design of contracts, as in the second step, would reduce revenue volatility, but it is unlikely to eliminate the problem. At present, each government is making up its own *ad hoc* scheme for smoothing expenditures. Timor Leste and Chad even have elements of Norway's approach to oil revenue –accumulating financial assets for future generations. Such a feature is surely ill-advised for low-income post-conflict countries which will need to finance major public capital formation if they are to transform their economies. Long-term financial assets are only appropriate for a capital abundant economy such as Norway or Kuwait. What is needed in terms of *financial* asset accumulation is a reasonably simple rule for medium-term expenditure smoothing so that governments faced with either a boom or a bust would not have to invent a policy rule from scratch. Many resource discoveries are for finite periods of two or three decades. Partly, such short time horizons are merely an artifact of the economics of resource discoveries: it is simply not efficient for an oil company to 'prove' reserves beyond a horizon of around thirty years. However, even if there is good reason to think that resources will only last for a relatively short period, this is not a reason to accumulate *financial* assets. If resources are going to expire it is indeed imperative for the society to *save* them, but the right choice of asset in low-income societies is overwhelmingly likely to be domestic capital formation. Low-income societies simply face a different decision problem from that of Norway which is already abundant in domestic capital.

Why might such an international model be effective? From the perspective of the international companies, the biggest risk in post-conflict settings is not political or commercial, it is the potential for loss of reputation. An international model or standard would create strong pressures for companies to abide by it. By following the standard they would protect themselves even if things went wrong: they would have a solid alibi. Those not adhering to the standard would heighten their risk of loss of reputation: when things went wrong their position would be indefensible. From the perspective of donors, a standard would provide a similar defense of reputation, and also a clear criterion for aid

allocation: the standard would become a condition for big aid. Such conditioning upon the processes of governance has a legitimacy that the intrusive conditioning upon economic policies lacked. Policy conditionality transferred to donors the power that should have belonged to governments. In the process it muddied the attribution of accountability: whom should citizens blame if things went wrong, their government or their donors? By contrast, governance conditionality seeks to make governments more accountable to their own citizens. From the perspective of post-conflict governments, a model of economic governance would guide reformers and reduce the scope for unproductive argument. Economic reform is complex and there are always multiple opinions. In the typical post-conflict conditions of an acute shortage of resident citizens with skills, and high levels of suspicion, self-guided reform is likely to be fraught with disputes even among people who should be on the same side. In addition to reducing frictions among those who want reform, an international standard is likely to raise the bargaining power of reformers as a group against both international companies and domestic vested interests. The utility of standards to reformers would be analogous to role of the *Aquis Communautaires* for reformers in the potential accession countries of the European Union. Who, however, would play the role of the European Union – that is, who would promulgate the standards? The obvious answer is that the new Peace Building Commission should play such a role.

4. Conclusion

Post-conflict situations have historically been times of high risk: indeed, half of all civil wars are the result of post-conflict situations gone wrong. Fortunately post-conflict situations have also been times of major policy error both by the post-conflict governments and the international community. By avoiding the mistakes of the past, it should be possible to do much better and so bring these risks down.

Economic factors are at the heart of conflict risk. With better policies, better priorities for reform, and bigger and better-timed aid, it should be possible to restore the economies of post-conflict countries considerably more rapidly. Yet even with the best choices, economic recovery takes time. The risks of the post-conflict decade cannot be solved by economic choices. What good economic choices can do is ensure that those risks do not persist beyond that decade. Hence, economic strategy can only complement other strategies for keeping the post-conflict peace. I suspect that there has been an overemphasis upon political design, perhaps because that is the skill-base of most of those who write about the topic. I favor a dual strategy in which during the decade external military forces are used to maintain a credible peace. During this imposed peace, the opportunity is taken to pursue the economic recovery strategy with vigor. In turn, this gradually brings risks down to acceptable levels by the close of the decade.

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