

# **POST-CONFLICT COUNTRIES: AID EFFECTIVENESS AND PERMANENT PEACE**

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## **I. Introduction**

Few aspects of international economic policy have received so much attention or provoked as much controversy as international development assistance. This paper analyses some of the key issues in the debate, drawing on the experience of many countries.

Most of the analysis is confined to fragile states, the states that have either been through or are highly vulnerable to serious forms of internal violence, including civil wars. It is also deliberately general and normative. The aim is to consider some of the broad widely applicable principles that ought to guide the creation of institutions and policies in this area, not specific policies that reflect the needs and priorities of individual countries.

There are many reasons why fragile states deserve special attention. Civil wars do more than inflict heavy human and material costs. They also diminish the capacity of a country to deal effectively with their underlying causes, increasing the risk of future, even more costly and debilitating, conflicts. What is more, the longer they persist the greater the danger that they will destabilize, even spill over into, other states, making in the process whole regions vulnerable to intercommunal divisions, violence and wars.

That makes the objectives of foreign aid and the conditions under which it is provided and implemented in post-conflict countries of critical importance because of their effect on the distribution of gains from any improvements in economic performance that external assistance makes possible. The reason for this is that most civil conflicts are

caused by great, persistent inequalities (economic, social and political) that create irreconcilable divisions within a country. Foreign aid will do little to solve these underlying problems without an institutional framework with the responsibility and capacity to reduce the inequalities to the levels that are generally regarded as 'fair'.

Consequently, it is the institutional framework created after the conflict and the nature of economic reconstruction and development that follow, all of which can be influenced by the donors, that will determine whether the root causes of past divisions and violence have been eradicated permanently. As sustainable, permanent peace is the most important goal that foreign aid can help post-conflict countries achieve, the effectiveness of all forms of external assistance has to be judged by how far they contribute towards achieving that overriding objective.

The overall cost of civil wars is such that institutional reforms, postwar reconstruction and the early stages of economic development become, in many respects, a shared responsibility between the receiving country and its donors. The ultimate success or failure will be determined, therefore, by how each side discharges its part of that shared responsibility.

The sections that follow pay special attention to institutional aspects under which external economic and technical assistance needs to be given and implemented. These include: short and long-term costs of conflict; some essential preconditions for permanent peace; main responsibilities of the recipient country and its donors; the role of aid effectiveness and its monitoring in a world of more stringent performance related standards in the allocation of official development assistance; and factors that need to be taken into account in assessing the effectiveness of foreign aid.

A distinction is made in each case between the ultimate goals and matters of principle (where generalisations are possible) and action programmes and policies necessary to achieve them (where, invariably, country specific solutions are required). As no two countries are identical, even when they pursue the same ends the means to achieve these ends will differ, often significantly in case of post-conflict countries. Moreover, no matter how successful institutions and policies are in one period of a country's history, they cannot be expected to remain so indefinitely under dynamic economic and social conditions. New problems and priorities will require changes in the existing institutions

and policies. The ‘permanence’ of permanent peace will be determined in the end by the timing of these changes and their sensitivity to the needs and aspirations of the whole population, not just a privileged minority.

## **II. The Cost of Conflicts and the Capacity to Use External Aid Effectively**

There were over 220 armed conflicts in the world between 1946 and 2001, half of them since the end of the Cold War in 1989/90 (Gleditsch *et al.* 2002, pp. 620 and 616). The overall figure includes more than 140 civil wars, with 20 million casualties and 67 million displaced persons (Sambanis 2003, p. 1). These figures are equivalent to half of the casualties and more than double the number of displaced persons in Europe during the Second World War (Panić 2005a, pp. 59-60) – the bloodiest war in the continent’s long history of conflicts.

The number is even higher today as a result of a combination of interstate, internal and internationalised internal wars in countries such as Iraq, Afghanistan, Sudan and the Democratic Republic of Congo. (See Small and Singer [1982, chapter 2] for a classification of different types of state conflicts.) The human cost of armed conflicts is, in fact, even greater than the data suggest because civil wars are not the only form of organised aggression and brutality. Intercommunal violence, coups and high levels of organised crime, even genocide, have occurred in many countries.

Moreover, in addition to military casualties, many lives are lost during and after armed conflicts through famine and the lack of essential medical services. Not surprisingly, spread of disease has been associated throughout history with wars. However, changes in the nature of recent internal conflicts have made the link between the two even stronger because of “the deliberate targeting of civilians and the widespread use of rape as a systematic tool of warfare” (World Bank 2004, p. 25). According to one estimate, the HIV/AIDS virus is killing more than ten times as many people in Africa as the armed conflicts (Elbe 2002).

Civil wars, in particular, also leave a substantial part of the population with serious physical and psychological disabilities. For instance, many people lost their limbs in Sierra Leone during the conflict, joining an already large group suffering from other physical disabilities, such as those related to leprosy and polio (Date – Bah 2001, p. 3).

There is also evidence of a high incidence of mental disorders among displaced population. Some estimates put the proportion of refugees suffering from “acute clinical depression and post-traumatic stress disorders” at between 40 and 70 per cent (World Bank 2004, p. 26).

All these problems and the capacity to deal with them are made worse by the loss during and after conflicts of some of the key sections of the population.

The direction of labour migration at the beginning of the new millennium is no different from that during the last two centuries: predominantly from low to high-income countries; and, among developing countries, from slow to fast growing economies. The attraction of prosperous, politically stable countries will be particularly strong for residents of fragile, conflict prone states. Emigration provides them with the only opportunity to escape the world of abject poverty, personal and economic insecurity and little or no prospect of breaking out of the poverty-conflict trap in their lifetime. For some, conflicts make emigration a necessity, even a matter of life and death. This is particularly true of those with special skills and professional qualifications who are often targeted by the warring factions.

Advanced or fast growing economies also contribute to the exodus of key personnel from fragile states, as they have always actively encouraged immigration of labour with special skills. For example, many OECD countries amended their legislation in the 1990s to make immigration relatively easy for certain types of labour, especially those with IT skills, medical personnel, teachers, scientists and engineers (Dumont and Lemaitre 2004). It is not surprising, therefore, that the highest proportion, ranging from over 30 to 80 per cent, of highly skilled and qualified labour living in OECD states is found among the expatriates of some of the poorest countries in the world (*ibid.*, p. 15), many with a history of conflicts.

The long-term cost of emigration of those with professional qualifications is considerable to all low income countries. Unable to keep them, the countries are forced to concentrate on economic activities that rely on semi skilled and unskilled labour, not exactly the way to improve productivity and income levels and thus make the prospect of staying in their home country more attractive to those that they desperately need. According to one estimate, “each emigrating African professional represents a loss of

\$184,000 to Africa”. The loss to South Africa alone from emigration of highly skilled labour between 1997 and 2001 is put at “more than \$5 billion” (UN/DESA 2006, p. 64).

Although the shortage of highly skilled and professional personnel is a major obstacle to economic development in all low income countries, it is the post-conflict countries in this group that are likely to feel their absence most acutely. The reason is that, because of their social standing and influence, these individuals could make a major contribution to the process of reconciliation and reconstruction and in this way increase the likelihood of sustainable peace.

More difficult to quantify, or to assess its long-term impact, is the effect of radical changes in the social cohesion of a war torn country: its social structures, responsibilities and norms – as family and community ties of loyalty, friendship and support break down or are irretrievably lost. The changes will affect especially some of the most vulnerable members of society: children separated from their families, often traumatised by war and sexual abuse; old people left without material and other help by the loss of their families and traditional community systems of support; and many widows with young children to care for and without financial help. As a result, the state in post-conflict countries finds itself with much greater social responsibilities than before the conflict at a time when it is least able to discharge them.

In addition to their heavy human cost, civil wars, especially those of long duration, also destroy and make obsolete physical capital, reducing further productive capacity of a post-conflict country. Typically, the country will emerge from the war with a lower level of GDP and a lower rate of growth. (See Lindgren, 2005.) Unemployment levels will be high and employment opportunities will remain limited for some time, as it may take post-conflict countries up to five years, even longer in some cases, to become able to use external assistance effectively (World Bank 2004, p. 27; McKechnie, 2003). Other things remaining the same, the result is further increases in inequality and poverty, as both are strongly associated with unemployment. In other words, all the economic conditions that play a major role in causing internal and interstate conflicts will be even more serious at the end of a civil war than before.

The material damage can be extensive making, as West European experience after 1945 shows, economic recovery without foreign assistance difficult even in highly

industrialised economies where the stock of human and physical capital is far greater than in the developing world (cf. Panić 1992a). A high proportion of dwellings will be damaged and destroyed. Most public buildings and the infrastructure will be in a similar state: hospitals, schools, water treatment and sanitation plants, roads, railways, bridges, manufacturing and energy plants and others (McDonald, 2005).

Food is in short supply, malnutrition widespread and anti-personnel mines make much of agricultural land unusable. For instance, as much as 35 per cent of the land in Cambodia could not be used after the conflict for this reason. Similar problems have been experienced by Angola, Mozambique and several other African states regarded generally as being “among the most landmined countries in the world” (Date – Bah 2001, p. 36). Roads, bridges, railways and ports will present similar mine hazards, making the distribution of agricultural and other goods and services, as well as exports, both difficult and risky.

The experience of Rwanda, a country that has received much international attention since the genocide in 1994, encapsulates many of the costs of conflict and their effect on the capacity of a post-conflict country to recover.

According to World Bank estimates, at least 800,000 people (around 10 per cent of the population) died during the conflict and 3 million fled to neighbouring countries (Lopez *et al.* 2004, p. 1). Children were left with the responsibility of caring for 85,000 households. There were also a large number of orphans and widows. The effect on health was equally devastating. Widespread rape led to “the spread of HIV/AIDS, and victims of rape and violent crimes suffered extensive trauma”. Infant mortality went up from 85 to 137 per thousand and the child mortality from 150 to 247 (*ibid.*).

Economic effects of the conflict are still felt. Ten years after the genocide it was estimated that Rwandan GDP was 30 points lower than it would have been if the genocide did not happen. The level of poverty was well above what it would have been without the conflict: 60 per cent instead of 42-47 for the population as a whole and 42 per cent instead of 26-28 for those living in extreme poverty, struggling to satisfy their basic needs (*ibid.*). Despite ‘steady growth’ since the mid-1990s the country’s Human Development Index (HDI) ranking is lower now than it was in 1993, even though it has received considerably more external aid per capita than a number of post-conflict

countries. Yet some of these countries have managed to improve their HDI ranking over the same period (Suhrke and Buckmaster 2005, p. 22).

The sheer scale and complexity of problems in post-conflict countries is such that the risk of another civil war in these states is fairly high, around 50 per cent according to some estimates (McDonald 2005, p. 3; World Bank 2004, p. 8). Half of those that flare up again do so within five years after the end of the last conflict (UN/DESA 2006, p. 143).

### **III. Shared Responsibility: Preconditions for Success**

Most fragile, war torn, states are at a low level of economic development, many among the least developed countries in the world. Hence, even at the best of times, they will lack physical and human capital to prevent economic failure and social divisions that can easily provoke costly conflicts. Civil wars, as the previous section shows, will reduce further their already limited capacity to achieve and sustain social cohesion and peace.

As a result, every conflict increases the dependency of a fragile state on foreign aid, both material and technical. An important consequence of this is that the effective use of external assistance becomes, especially in the early stages of the postwar reconstruction and development, a *shared* responsibility between the receiving country and the international community. The blame for failure cannot be attributed, therefore, exclusively to one side – even though the main responsibility for what happens in a sovereign state rests with its population and institutions.

As UNCTAD (2006, p. 36) reminded the international community in a recent report, “development aid can never be a lasting substitute for the mobilisation of domestic resources.” Its aim “is to break some of the economic and social constraints on such mobilisation and to bridge some of the gaps that might otherwise hinder or undermine the progress.”

This is as true of post-conflict countries as it is of developing countries in general – except for one important difference: the need for success in ‘bridging the gaps’ is much greater and more urgent in their case. That, in turn, increases the responsibilities of both the recipients and donors well beyond that of helping to mobilise domestic savings and

investment. The task is nothing less than to make it possible for post-conflict countries, over 80 per cent of which are poor and highly vulnerable to external shocks (Panić 2005a, p. 63; Guillaumont 2007), to break out of the poverty-conflict trap in the long term by achieving economic progress, political stability and sustainable peace. The extent to which the recipients and donors co-operate towards that goal will be of critical importance in determining the success of external assistance.

This, in turn, will depend on at least three preconditions that have to be satisfied if the post-conflict reconstruction and development are to have any chance of success.

First, there has to be a strong, broadly based consensus in the countries concerned that armed conflict is unacceptable as an instrument for solving disputes within and between states. Equally essential, the system of government must be such as to allow the general desire for peace to be reflected in popular support for the political organisations and leaders with a programme of reforms and policies that will prevent future wars. It was the existence after 1945 of such a consensus and democratic institutions in Western Europe that proved to be one of the key factors behind the extraordinary effectiveness of the Marshall Plan (Panić 1992a, Keegan 1999), “perhaps the most successful aid exercise in history” (UNCTAD 2006, p. 4).

Second, the recipients and providers of external assistance must have very similar long-term objectives and priorities. When this is not the case, the volume of aid and the conditions attached to it will often promote donors’ geopolitical or corporate interests with little regard for the impact that these will have on the receiving country. Even international aid giving agencies may, under the pressure from their most powerful member(s), subordinate the needs of developing, even post-conflict, countries to the interests of their wealthy donors. (Cf. Alesina and Dollar 1998, Barro and Lee 2002.)

Close international co-operation to realise important objectives in post-conflict states is relatively easy to achieve when, as was the case with Marshall Aid, there is one dominant donor whose long-term objectives and priorities happen to be virtually identical with those of the receiving countries. The problem is that the consensus that existed in the late 1940s in Western European and the US - a small group of countries with similar institutions, interests and at a comparable level of economic development - is very



difficult to replicate in a world divided into three times as many states as there were in existence at the time. (Cf. Gleditsch *et al.* 2002, p. 621).

What is more, differences between sovereign states have never been greater in virtually every aspect that tends to determine international relations: their size, level of development, political system, social values, military power and national respect for human rights, justice, rule of law and environmental sustainability. (See Maddison 2001 and 2003, Bourguignon and Morrison 2002 for long-term changes in international economic inequalities.) The number of donors, official and private, has also proliferated since the 1940s.

To prevent development assistance from promoting economic and social divisions and conflict rather than peace, these important changes demand now a more formal approach: an internationally agreed code of behaviour that applies equally to the recipients and donors.

The 'International Code for the Provision of Development Assistance to Post-Conflict States' would exclude short term humanitarian aid which tends to be provided automatically where and when required. Its main concern would be with reconciliation, reconstruction and sustainable development of fragile states. (See Panić 2005a.)

The Code would define clearly the overriding objective: permanent peace to be achieved through close co-operation, national and international, and widely shared benefits from improvements in the standard of living and social wellbeing. To that end, post-conflict states would have to commit themselves – with help from the international community – to a new, irreversible 'social contract' that embraces *all* their citizens: equal rights and opportunities, personal security and economic (employment and income) security – irrespective of their ethnic origin, race, religion, gender or class. By defining each of these goals, the new contract would also provide clear criteria by which to judge the extent to which a post-conflict country is taking the steps to implement them, and the role played by the international community.

Third, external assistance to post-conflict countries can be effective only if it is based on a pragmatic assessment of what needs to be done and how, not by ideologically motivated dogmas. As Myrdal (1960) pointed out at the time, an important reason for the success of economic policies in industrial countries after the Second World War,

especially those in Western Europe, was the fact that they reflected each country's needs and priorities, not ideological preferences of those in power. Contrary to proponents of the 'Washington Consensus', it is impossible to achieve prosperity and peace with an identical, universally applicable, 'blueprint' of institutions and policies.

Post-conflict countries may share many important characteristics. But the exact origin of their problems, needs and priorities will tend to be specific to each. The reconstruction and development tasks and the scale and nature of external assistance can only be determined accurately after careful assessment of the conditions, including the institutional framework, specific to a country and the divisions that provoked violent conflict.

Not surprisingly, it is increasingly recognised now that the process of postwar reconstruction has to start with reconciliation at the socio-political level. (See Collier 2002, Sardesi and Wam 2002, McKechnie 2003.) According to Collier (2002), preferred ordering of the "key priorities" has changed radically: "social policies first, followed by sectoral policies and macro policies last".

It is important, however, not to be too rigid or dogmatic about the new 'ordering' either. Social policies and institutional reforms *are* essential in post-conflict countries. However, they will achieve little reconstruction, even less development and, certainly, no lasting peace without social reconciliation (Panić 2005a). Equally important, for reasons given later in this paper, there will be little social reconciliation and no sustainable development if inappropriate macroeconomic policies increase economic insecurity and socio-economic inequalities. Neglect of the macroeconomic stabilisation policies can be as destabilising and costly as ideological zeal of the 'shock therapy'.

#### **IV. Shared Responsibility: Forging a New Social Contract**

All this makes 'reconstruction' of the *state* at all levels one of the most important and urgent tasks in postwar rebuilding in countries that have experienced civil wars. No major economic reconstruction and development are possible without it; and without them future conflicts are unavoidable. Civil wars, the ultimate consequence and proof of institutional failure, do not take place in well governed, prosperous states. Countries that

emerge from internal conflicts will, therefore, need to reform fundamentally their institutional framework.

The importance of this stems from something that tends to be overlooked in economic debate. As Woodward (2003, p. 4) has pointed out, experience in the 1990s “suggests that economic factors have far more to do with the failure, or severe retardation of the peace process, than they do with the success of [peace] initiatives”. (See also Suhre and Buckmaster, *op. cit.*) In other words, although important, the rate of economic growth does not in itself guarantee prosperity and social wellbeing and, therefore, peace.

*(a) Post-conflict countries*

At the end of civil war confidence in government is low – particularly if members of the post-conflict government are associated with the discredited regime that was in power before and during the war. The whole political, administrative and judicial class will be regarded as untrustworthy, incompetent, corrupt and far more concerned with personal aggrandisement than with wellbeing of the country. Confidence in the military, police and the existing legal framework will be at least as low. Politicians at all levels are blamed for the injustices, exclusion and divisions that led to the civil war. The legitimacy of the government, even that of the state, is questioned.

For all these reasons, it is essential for the new, post-conflict government to justify its own legitimacy and, as it is its most important organ, that of the state. The extent to which it succeeds, or even tries to succeed, will be determined by the manner of its ascension to power, which defines its constitutional accountability, and on its willingness and ability to carry out the required institutional changes for the benefit of the whole community. The two are closely related. Of the three most likely ways of achieving power in post-conflict states – genuinely free and democratic elections, military coups, governments imposed on the population by domestic and/or foreign vested interests - only the first will owe its existence to a commitment to implement the necessary, widely supported changes. The main task of authoritarian governments in this case is to use coercive power of the state to prevent such changes.

To be effective, the reforms demand nothing less than what European political philosophers in the seventeenth and eighteenth centuries (notably Hobbes, Locke and Rousseau) called ‘social contract’ or ‘social compact’: an implicit understanding,

agreement by members of a community to co-operate for mutual benefit. Such an understanding is essential because a modern state cannot advance to high levels of economic and social development, internal order and peace without co-operation. Moreover, the higher the level of development the more complex the collaborative effort has to be to safeguard the past achievements and use them as a springboard for further progress.

What makes the idea relevant now, especially in post-conflict countries, is the fact that it originated in Europe during a period of almost continuous armed conflicts and lawlessness, and the beginning of the formation of new, nation, states. ‘The contract’ has been ‘revised’ and ‘updated’ many times since then in all highly advanced countries following major socio-economic transformations, revolutions and wars. In that sense, Barbera (1998) is right: armed conflicts, especially civil wars, often lead to profound social and institutional changes.

The experience since then, particularly since the Second World War, has shown that in modern states economic prosperity, social cohesion, personal safety and political stability depend critically on the three conditions that, universally, form the basis of their legitimacy. The social contract, as mentioned earlier, has to reflect this.

First, the state must respect human rights – with *equal rights and equal opportunities* for all, irrespective of their ethnic origin, race, religion, gender or social class. This requires that all forms of discrimination be outlawed, with the new laws implemented strictly and fairly. That can be achieved in post-conflict countries only with reconciliation that makes possible participation of all sections of the community in the collective effort.

Second, the state has to ensure *personal security* for all, a priority in post-conflict countries. One of the reasons for this is that in many of them criminals are freed and used by the warring factions to terrorise the population into submission. According to a UK government paper, the poor in these states regard the absence of internal security to be as major a threat to their existence as “hunger, unemployment and lack of drinking water” (quoted in McDonald 2005, p. 29). The threat can be eliminated only with the creation of an impartial, well-trained judiciary and police force that enjoy the trust and respect of the whole community.

Third, the state needs to have the means to provide *economic security* (in employment and income) for all, so that they can, as UNDP (2004, p. 127) put it, “lead a long and healthy life, ... be knowledgeable, ... have resources needed for a decent standard of living and [be able] to participate in the life of the community”. (See also ILO 2004). That demands rapid, effective postwar reconstruction and development providing: employment opportunities for the unemployed on important public and other projects; food, shelter, clothing, medical services and education; clean water and sanitation; infrastructure; mine clearing; and growth and diversification of the productive potential.

Although the whole community has to participate actively in achieving these goals, it is the role of the central government and parliament that is of critical importance. It is their duty to represent the community as a whole not a particular social group, private interests, locality or region. It is also their responsibility to define the character and goals of the state and to make sure that everyone is working towards the same widely desired aims. The last is particularly important in fragile states where the lack of social responsibility, corruption and negligence tends to be common and, therefore, not confined to the organs of central government.

Even when this is not the case, the danger is that a highly decentralised effort in postwar reconstruction and development will concentrate on local issues, ignoring wider problems that affect the country as a whole. As the resources are scarce and unequally distributed between the regions and localities, some of these will make much greater and faster progress in the reconstruction than others.

In the absence of an effective central authority to manage inter-regional transfer of resources, the disparities could do more than make it virtually impossible to create a feeling of national unity and purpose, with everyone making a contribution towards achieving the same goals. Horizontal inequalities would sooner or later trigger off further conflicts, especially if the regions differ significantly in their ethnic, racial or religious composition. It would not take long in this case for the disparities to be regarded as a deliberate act by the state, designed to favour interests of certain groups at the expense of others. When this happens, civil conflicts tend to turn into wars for national independence, as one or more groups become convinced that they would be better off by forming their own independent, sovereign state.

Delegating a major responsibility for the reconstruction and development to NGOs and civil society organisations may lead even faster to armed conflicts and the break up of countries. By their very *raison d'être*, most of these organisations concentrate on specific issues that promote interests of particular groups only. In other words, they tend to lack the impartiality as well as the resources which are essential to achieve a permanent solution of the problems common to post-conflict countries.

For similar reasons, it is impossible to solve one of the most serious problems in all fragile and post-conflict states, that of lawlessness and lack of personal safety, by delegating the matters of internal order to private organisations. The reason for doing this is usually either widespread lack of confidence in the police or because the government's financial resources are inadequate to train and run an effective, impartial police force. This is unlikely, however, to achieve a satisfactory, lasting solution to the problem of personal security. Private provision of 'security' is completely at odds with one of the most important conditions that makes the maintenance of internal order a public good: it excludes the vast majority of people in these countries, those who cannot afford to pay for private protection.

In fact, it is clear from the preceding analysis that many of the most important changes that fragile states need to achieve concern public goods. As these 'goods' are normally provided most effectively by the state, the strengthening of state institutions is of paramount importance - a fact that is now widely acknowledged by major international organisations (UN/DESA 2006, UNCTAD 2006, OECD 2007, World Bank 2004). Moreover, as Kindleberger (1996, p. 220) concluded after a lifetime of studying the experience of countries at different stages of development, when economies are "moving on trend", a decentralised form of economic organisation is likely to be more effective. But in times of crises, when fundamental changes are required, it is centralisation and co-ordination of economic activity that is essential. (See also Panić 2003, Part II.)

It is for this reason that one of the most damaging long-term effects of the neoliberal counter-revolution in the 1980s and 1990s is likely to be the deliberate weakening of state institutions in both developing (Schiavo-Campo 1996) and developed (Panić 2003, chapters 3 and 9) countries. It takes considerable time and effort for the

capacity of the state to be restored to deal effectively with the highly complex economic, social and political issues that confront modern countries.

*(b) Donors of official aid and monitoring*

The potential donors need to take into account all these factors in formulating their actions and conditions under which they are willing to provide technical and financial assistance, making sure that the conditions are consistent with the goal of achieving permanent peace and that they will be observed. That was, in fact, another aspect of the Marshall Plan that made it such a success (Panić 1992a). US assistance was conditional on active co-operation between the countries receiving it, judged, correctly, to be the most effective way of preventing future wars in Europe. (See also Kozul-Wright and Rayment 2007.)

In the case of countries emerging from *civil* war, the overall ‘conditionality’ must pay special attention to the three ‘pillars’ of the new social contract. Donors whose objective is to help these countries avoid future conflicts cannot afford to compromise on any of them.

It is also important that, instead of imposing their own institutional models and policy preferences on the receiving countries, the donors help them utilise “local knowledge and perceptions and listen to the needs that are articulated by conflict affected countries and their ideas about what can be done to address them” (UN 2004). They should also assist the countries to “build on the capacities that exist” rather than try to duplicate “or displace locally developed initiatives” (*ibid.*)

To ensure that all these conditions are met, it is essential that progress in each be monitored carefully. Given the past record in this area, the responsibility for monitoring could be assigned to independent assessors working for or on behalf of international organisations not directly involved in providing external assistance to the country concerned.

The need for careful monitoring and the way that it is organised will depend also on who is providing foreign aid and how.

An important problem with bilateral assistance, for example, is that it may be used in support of special interests in either receiving or donor countries. If that is the case, those providing the aid are likely to give control over its implementation to individuals

and groups who support their aims. Bilateral aid needs, therefore, to be monitored carefully by independent assessors.

The problem may be even more serious under multilateral aid if donors have very different objectives and are more concerned with long-term benefits of external assistance to their powerful interest groups than the needs of post-conflict countries. The advantage of multilateral aid is that, apart from avoiding the multiplication of effort and waste caused by uncoordinated aid, “multilateral organisations may be in a better position to ... induce collective action among members and, in general, achieve objectives that individual members would not be able to achieve on their own” (Martens *et al.* 2002, p.188). Nevertheless, with many donors and the risk of major differences in their motives for providing assistance, multilateral aid may require even more careful monitoring and an independent assessment of its effectiveness than bilateral aid.

*(c) Governments, international organisations and transnational corporations*

Special monitoring arrangements and close co-operation between the receiving country, donor governments and international aid agencies will be needed in those economic and social activities in which transnational corporations or NGOs play an important role, especially if significant exploitation of natural resources is involved.

The so-called ‘natural resource curse’ and the ‘Dutch disease’ (see UN/DESA 2006, UNCTAD 2006) have received considerable attention, often for the wrong reason. Generally, misunderstandings of the experience of a few countries have led some analysts to the conclusion that seems to imply that the worst thing that can happen to a country is to be rich in natural resources. The problem is that if that were the case Scandinavian countries, Canada and the US, to give a few examples, would still be poor, conflict-ridden states instead of belonging to that exclusive club of countries with the most advanced economies in the world.

The ‘curse’ and the ‘disease’ are, in fact, something quite different: the result of institutional failure, wrong policies, corrupt governments and/or inability of a small or poor country to defend its interests against powerful, predatory foreign corporations and their governments. (See also Korten 1995.) It would not take long for a more equitable share of the revenues between the two sides to dispel the ‘curse’.



That would require an agreement between governments of post-conflict countries and foreign corporations to avoid myopic approaches to the exploitation of natural resources that ignore long-term development of the countries concerned and the consequences of its failure. This has proved far from easy to achieve. An effective agreement of this kind is possible only if private corporations, their governments and governments of post-conflict countries regard peace as a global public good in which all of them have an important stake.

The basis for full co-operation between governments of the countries of origin of transnational corporations and governments of developing countries already exists in international agreements and national laws – provided, of course, that the governments observe and enforce them. For example, the Antiterrorism, Crime and Security Act of 2001 gives UK courts the power to prosecute “UK registered companies and UK nationals...in the UK for any act of bribery or corruption committed overseas” (McDonald 2005, p. 15). A couple of years earlier, in 1999, OECD member states agreed that “they would all legislate to make bribery of a public official in a foreign country an offence” (Collier 2007, p. 137).

As a number of well-publicised cases show (*ibid.*, chapter 9), adverse publicity is another powerful weapon in making transnational corporations and banks act in a way that promotes peace rather than causes conflicts. But to be effective, the publicity must also include suppliers of these corporations. Otherwise, there is nothing to prevent transnationals from outsourcing, as many of them do, the worst aspects of irresponsible, exploitative behaviour to small firms in post-conflict countries and disclaiming any responsibility, or even knowledge, for actions of these firms.

Sustainable peace in fragile, conflict-ridden states cannot be achieved until the international community is prepared to deal with these problems. Corruption and other malpractices are not confined to political leaders in developing countries.

## **V. Monitoring and Assessment of Foreign Aid Effectiveness**

There are two reasons why the international community needs to approach the problems identified in the previous section with much greater urgency than has been the

case so far. First, their solution is essential if the world is to eradicate some of the most common causes of national and, potentially, international conflicts. Second, this could be much more difficult to achieve in the coming decades as the means to do so may not be as readily available as they are now. (See, for instance, Schwartz and Randall 2003.)

The projected increase in world population, climate change, ecological degradation and the threat of growing shortage of strategically important natural resources are expected, other things remaining the same, to reduce markedly over the next few decades growth potential of the world economy (Stern 2006, UNEP 2007). If that happens, past experience suggests that it will have an important effect on the volume and stability of financial and technical assistance to developing countries, particularly those with a record of failing to use it effectively. All fragile states fall into that category.

*(i) Humanitarian vs. development aid*

The expected deterioration in global economic environment may not change significantly international readiness to provide humanitarian, emergency aid. Most of it is given in response to natural disasters that affect a large number of people, making it virtually impossible for the region or country affected to cope with the consequence without external assistance.

There will always be a strong feeling of compassion for victims of major, unforeseen disasters. The objective is clear: to save lives by providing food, medical assistance and shelter, enabling the affected area to recover sufficiently to function as a viable entity again. As the effectiveness of emergency aid becomes apparent within a short period, it is relatively easy to monitor and evaluate. Moreover, a far from negligible proportion of this aid is financed by voluntary contributions from individuals, charities, other NGOs and, often, from private corporations and banks.

Development assistance differs in a number of important respects from emergency aid. The resources required are larger, the commitment longer, the objectives broader and, as a result, less clearly defined. In many cases the real effectiveness of aid may not be apparent for many years and is, therefore, difficult to evaluate correctly.

Normally, development assistance provided by the developed world accounts for a minute proportion of the countries' national income and not a much larger proportion of their government budgets. Nevertheless, the resources allocated to foreign aid will be

competing directly with those required for important national causes that the electorate tends to rank much higher on its list of priorities.

This is unlikely to be a major threat to foreign aid commitments when donor countries are enjoying high levels of economic security and social wellbeing and expect to do so in the foreseeable future. The same will be also true if an important and clearly identifiable national interest makes it necessary for them to provide assistance for postwar reconstruction and development, as was obviously the case with Marshall Aid.

The willingness to assist the development of other countries, no matter how deserving, is likely to change radically following a serious deterioration in the economic environment and prospects, especially of the kind described briefly above. When there are limited resources to satisfy important domestic needs public attention will focus increasingly on the size and effectiveness of external assistance. Has it made any noticeable difference in the receiving countries, especially fragile states, and, if not, should it be continued?

In other words, the question of selectivity cannot be avoided for long in such an economic environment. If allocation of diminishing (relative to the needs) resources has to be made selectively within countries according to where they are likely to be most effective – it becomes increasingly difficult to justify a different approach in allocating resources, such as financial aid, between countries.

Hence, the paper by Burnside and Dollar (2000) that suggests selectivity in the allocation of external aid should not come as a surprise. It has attracted a good deal of attention and criticism. Much of this has concentrated on their methodology and ethical problems associated with the discrimination in the provision of foreign aid against some of the poorest countries in the world. There is also concern that, if implemented, much more stringent selectivity than at present would make it impossible to achieve the Millennium Development Goals to which the international community has committed itself.

The criticisms are relevant and would, most likely, attract considerably sympathy and support in the developed world. But that does not necessarily mean that at least some of the countries in this group will hesitate to reduce their contributions to external

assistance, both bilateral and multilateral, if the economic environment deteriorates sufficiently to pose a serious threat to their own social stability and political order.

There is a recent precedent for this. Although the most advanced economies agreed in the 1970s to contribute annually 0.7 per cent of their Gross National Income (GNI) to aid only five of them are honouring the agreement: Norway, Sweden, Denmark, the Netherlands and Luxembourg. Another country to meet the target for a short time, France, has almost halved its contribution (as proportion of the GNI) since the end of the 1980s, following rapid deterioration in its economic performance. In fact, with very few exceptions, all the 'rich countries', including the five listed above, are contributing a smaller proportion of their national income to aid now than they did in 1990 (cf. Panić 1992b, UNDP 2006).

In other words, unless scientific assessment and predictions of ecological degradation and its socio-economic consequences turn out to be widely off the mark, the question is not whether but how soon is greater selectivity in the allocation of foreign aid going to happen. Given the importance, economic and geopolitical, that the effectiveness of external assistance is going to assume in this case, it becomes imperative to avoid the use of simplistic, ideologically motivated criteria in assessing it. The accumulated evidence since the 1940s makes it abundantly clear that few of the standards or 'conditions' used commonly in development literature and programmes can be accepted with confidence as a reliable indicator of aid effectiveness without a careful scrutiny of the institutions, policies and actual developments in a particular country.

The *raison d'être* of economic development is to improve the standard of living, economic security and social wellbeing of all, not just a small minority. The important implication of this is that although none of these improvements can be achieved without economic development, even sustained economic growth is not sufficient in itself to bring about lasting social stability, internal order and peace to fragile and post-conflict countries. That requires specific measures to solve permanently the problem of the deeply ingrained inequalities that are the main cause of internal violence and civil wars.

To set fragile states on the path towards achieving this goal, external development assistance, both financial and technical, has to satisfy four conditions. First, it has to be adequate to meet the objectives for which it is intended. Second, it has to be provided

over a sufficiently long period to achieve its aims. Third, it needs to be managed effectively. Finally, the conditions attached to it, and the policies pursued to meet them, must be appropriate to each country's needs and priorities. Properly executed, the four should fulfil what UNCTAD (2006, p. 37) has called "one of the primary functions of all aid [which] is to give governments time...to tackle serious structural problems without imposing excessive social and economic costs on the population."

Reducing aid to a developing country, particularly to a fragile or post-conflict state, will impose precisely such costs on the population. It is the duty of the international community, therefore, if it is planning to withhold aid from a country because of its failure to use it effectively, to take special care to establish, first, reasons for the failure. Do they originate in the country itself, its institutions and the policies that it has pursued? Or is the main reason for the failure the combined result of actions of donor governments and international aid agencies, especially the inappropriate conditions and policies that they have imposed on the country?

International experience over the last sixty years provides important lessons for the future.

*(ii) Disbursement and timing of development assistance*

The first important fact to establish in assessing effectiveness of external assistance is the amount of aid that a post-conflict country has actually received and how much of it has been used for activities other than institutional reforms and economic development.

It is a well-known fact that aid disbursements are often smaller than the commitments made by donors (Riddell 1987). Different institutions are involved in making the commitment, approving aid and disbursing it. Some projects are complex and take a long time to complete, making it virtually impossible to assess accurately *ex ante* the exact requirements, or to foresee important changes in the supply conditions and costs during their period of gestation.

Besides, for a number of reasons, only part of the received aid may be used for development. Some of it may go towards debt relief, or to prevent costly exchange rate volatility. Transaction costs associated with external assistance are far from negligible. Much of it tends to be wasted on "over-priced and ineffectual technical assistance", duplication of effort, countless missions and meetings (UNCTAD 2006, pp. 15 and 47).

The cost of tied aid is estimated to be in the region of \$2.6 billion, equivalent to a tied aid 'tax' of 8 per cent (UNDP 2005, p. 76). For these and similar reasons, aid that developing countries receive is "too often ...unpredictable, hedged with conditions, uncoordinated and tied to purchases in donor countries" (*ibid.*). Not surprisingly, the amount of aid given to a country may turn out to be insufficient to do as much for the transformation of its economic and social conditions as originally expected.

Finally, irrespective of how large aid given to these countries is it will do little to help their long-term development, needed to eradicate the underlying causes of conflict, if it is provided over a short period only. Yet this is far from being uncommon. Over the last twenty years foreign assistance declined sharply 3-4 years after the conflict in a number of countries (Suhrke and Buckmaster 2005). Even when this is not the case, some projects will turn out to be unsustainable because the original assessment underestimated seriously their operational costs or overestimated the country's capacity to run them without external assistance.

Among the leading providers of official development assistance, Scandinavian countries (Sweden Norway and Denmark) are, as already pointed out, most generous. Virtually all of their bilateral aid is untied and goes to countries that try to create conditions which are of critical importance for their long-term development and conflict prevention (Gates and Hoeffler 2004).

*(iii) Universal indicators of progress towards permanent peace*

The most important objective of all fragile states and the essential requirements for achieving it, sketched roughly in the preceding sections, provide also the criteria by which to judge progress (economic, social and political) that a country is making towards achieving the ultimate goal. As emphasised earlier, specific actions to that end will vary from country to country depending on its needs, priorities and available resources. But the basic principles and requirements that a successful social contract has to satisfy are equally relevant for all of them.

Given the sensitivity and complexity of changes that a post-conflict country has to undertake, together with the fact that they are highly interconnected (Panić 2005a), it will take time, normally a very long time, before its achievements become comparable to those of a successful middle or high income country. What matters in the case of these

states in the short to medium term, therefore, is the *progress* that they are making towards their primary objectives. Fortunately, there is enough evidence on most of the relevant indicators in this category for an evaluation of the improvements that a particular country is making with the help of foreign aid and the reasons behind the success or failure.

For instance, effectiveness of constitutional changes made to achieve *equal rights and opportunities* tends to become apparent within a short period. It does not take long to find if a post-conflict country is taking steps to outlaw discrimination against all social groups and, equally important, whether it is using vigorously and effectively law-enforcing organs of the state to implement the new laws.

At the same time, it is essential to bear in mind that, unlike legal and social barriers to equality of opportunity, the barriers created by economic inequalities will take much longer to overcome. That requires sustained effort over a long period. The time that this takes depends, among other things, on the rate of economic development, distribution of personal income and wealth, general provision of education and improvements in health, and the resources that a government is willing and able to transfer from high to low income individuals, families and regions.

Likely progress in achieving better *personal security* can be judged from the measures that governments take to stomp out the endemic lawlessness, made worse by civil conflicts. These will include new laws, resources devoted to the recruitment and training of the police, and efforts to eliminate corruption and incompetence from the legal system.

Even if the governments are making a genuine progress in all these areas it will take time for the public to gain confidence in the impartiality, integrity and competence of the judiciary and the police. How long this takes will depend on the speed of sustained improvements in increasing conviction and lowering crime rates, especially in the poor areas. Social surveys of the general feeling concerning personal security are also important in detecting the extent to which such changes are reflected in everyday experience of the population.

It takes much longer poor, fragile states to attain satisfactory levels of *economic (employment and income) security*. Nevertheless, even here lower poverty levels and widely shared improvements in the standard of living and social wellbeing tend to

become apparent already during the postwar reconstruction and in the early phases of sustainable development.

International organisations provide enough relevant and reasonably comparable information that can be used to monitor these and similar changes. Whatever the country's circumstances, better performance in the following normally indicates economic and social progress: nutritional and poverty levels; income and wealth equality; social services; health and safety regulations, hiring and firing of labour and hours of work; agricultural and industrial production; infrastructure; education; investment risks and FDI. In other words, it is not impossible to establish with considerable confidence from available information if a fragile state is breaking out of the poverty-conflict trap.

As all these improvements are extremely unlikely without a major reconstruction of the state, they also provide indirect evidence of the extent to which such a country is implementing, with external assistance, the new social contract needed to transform a fragile into a stable, viable modern state.

Nordic countries (the Scandinavians plus Finland) provide in many ways an example of what other official donors could do to improve long-term prospects of post-conflict countries and the developing world in general. According to Gates and Hoeffler (2004, p. 14), they “do not give more aid to political allies”. The main aim of their assistance is to help the receiving countries achieve “their stated objectives of poverty alleviation, the promotion of democracy and human rights”. In fact, their aid “seems remarkably free from self interest” (*ibid.*).

*(iv) Country specific indicators of aid effectiveness and progress*

In principle, the two indicators included in this category – ‘democracy’ and ‘economic growth’ – are among the most important criteria for judging aid effectiveness and progress. In practice, however, they may hide repression, impoverishment and, consequently, major causes of further conflicts. Seemingly identical political reforms and rates of economic growth may produce very different outcomes.

In its modern meaning, democracy (almost invariably *representative* democracy) is normally taken to refer to the form of government that respects and safeguards human rights and functions for the benefit of *all* people, not only of a particular group of them. As John Stuart Mill argued in his *Representative Government*, there must be “no pariahs



in a full grown, civilised nation, no persons disqualified, except through their own default". The ideal is a democratic form of government that is fully accountable to the people and guarantees liberty and equality, in their broadest sense, for all. The last two are essential for a true democracy to exist because (as Kant, Mill and others have emphasised) people who have no economic independence from the will of others cannot exercise genuine political freedom.

Yet this is not necessarily what the introduction of 'democracy' will bring to all fragile, post-conflict states.

For instance, far-reaching constitutional changes that appear to introduce a democratic form of government may do nothing of the kind unless they are backed by specific measures to eliminate, or at least alleviate significantly, inherent inequalities. For instance, if one ethnic, religious or racial group is dominant, and people who belong to it vote for those representing their group in the expectation that they will protect their interests, all that an outwardly democratic constitution is likely to achieve will be, in effect, a continuation of an autocratic or oligarchic form of government. As the largest group is unlikely to give up its dominant position and privileges unless it has to do so – the deep-rooted divisions and the potential for conflict will remain.

A similar problem arises when donor governments and international aid giving agencies include 'democracy' as one of the conditions for providing assistance not for the benefit of post-conflict countries but of powerful economic interests. The main objective of the assistance in this case is to manipulate the elections in order to install and keep in power subservient ('friendly') governments – irrespective of the long-term human and other costs that this might inflict on fragile states.

Hence, the written constitution and the outwardly 'free' and 'fair' elections are not necessarily a reliable proof of a country's democratic credentials.

Nordic countries apart, there is no evidence that official donors, governments or international aid agencies, treat differently democratic from autocratic states in allocating development aid. Nor is there evidence that they insist on the achievement of a genuinely democratic form of government as one of the conditions for providing such assistance (Gates and Hoeffler 2004, Alesina and Weder 2004, Aghion *et al.* 2004).

For similar reasons, the rate of economic growth and GDP per capita cannot be regarded as reliable indicators of economic progress that will secure permanent peace. They may show sustained increase in the productive potential of a country. However, without supporting evidence from other economic and social indicators that these changes are equitably shared – impressive increases in either may provoke rather than prevent further violence and civil wars. As evidence from advanced economies shows, although the US has one of the highest levels of GDP per head in the world its levels of economic security and social wellbeing are well below those of a country like Sweden whose GDP per head is appreciably lower (Panić 2007).

As a result, rapid economic growth without improvements in the standard of living and economic security of the whole population, especially those whom Collier (2007) has called ‘the bottom billion’, is creating precisely the conditions that lead to increases in crime, intercommunal or class violence and eventually civil wars.

*(v) Failure and conflict: economic policies that fragile states should avoid*

The four neoliberal policy prescriptions included in this category, all of which have featured prominently in the ‘Washington Consensus’ and IMF ‘conditionality’ for aid allocation, are predicted by their proponents to improve the standard of living of all countries irrespective of their level of economic development. The problem is that the prediction is difficult to justify either analytically or by reference to historical experience. (See also Kozul-Wright and Rayment 2007.) Far from being ‘good policies’, the four, as major economists over the last two centuries have warned, may, when implemented indiscriminately or prematurely, slow down economic development, increase poverty and widen the existing inequalities. All of these, as pointed out earlier, happen to play a prominent role in turning a fragile into a conflict state.

The idea that general *trade liberalisation* and specialisation could increase ‘the wealth of nations’ has never been disputed in its normative sense: as a desirable long-term goal. However, even Adam Smith and David Ricardo, who developed analytically the case for free trade more than two centuries ago, warned that the argument applied only to advanced economies. Unlike economies at lower levels of development, they have the capacity to adjust rapidly to adverse effects of a more liberal trading regime on their employment and standard of living (see Panić 1988, chapter 7).

In that sense there was no difference between them and those, like Alexander Hamilton in the US and Friedrich List in Germany, who argued at the time for protection until a country reached the level of development that would enable it also to benefit from freer trade (*ibid.*). Hence, as Samuelson (1939, p. 195 – italics in the original) has pointed out, it is not possible to demonstrate “rigorously that *free* trade is better (in some sense) for a country than *all* other kinds of trade.”

Policy makers in the now advanced economies obviously thought the same. All these countries liberalised their trade only after reaching the level of development and competitiveness that would protect them against the loss of important sectors, high unemployment and poverty that premature liberalisation could cause (Panić 2003, chapter 5). Those who insist on ‘reciprocity’ in trade liberalisation between advanced and developing economies, especially in the case of fragile and post-conflict states, are clearly not doing so for the benefit of the latter.

*Liberalisation of capital exports* may be even more damaging to long-term prospects of a developing country. Ricardo summarised succinctly the reason for this in a memorandum written two centuries ago when Britain was still in the early stages of its Industrial Revolution. He regarded “the migration of capital” as something that could not be “beneficial to a state” until it reached an advanced level of development. “A loss of capital may immediately change an increasing state [i.e. a growing economy] to a stationary state. A nation is only advancing whilst it accumulates capital” (see Panić 1988, p. 134).

Most developing countries share a number of characteristics, all highly interrelated: low levels of income and domestic savings, political instability or the threat of such instability, uncertain growth prospects and low levels of investment. These are serious disadvantages that make them much less attractive than advanced economies to international investors, including those domiciled in these countries. As a result, fragile and post-conflict countries are particularly vulnerable to flights of capital. For instance, capital liberalisation by several African states in the 1990s has led to a marked increase in capital outflows from these countries and much greater volatility of their exchange rates (UNCTAD 2006, p. 39).

The danger with premature capital liberalisation in post-conflict countries is, therefore, (a) that it will make them even more dependent on external financial aid and (b) that, unless compensated by a comparable increase in aid, it will reduce (relative to their needs) effectiveness of the development assistance that they receive.

*Deregulation of financial and labour markets*, driven by ideological dogmas rather than by the requirements of economic progress and social cohesion, can easily become a threat to conflict prevention even in relatively affluent and outwardly stable states.

Internationally deregulated financial services have always been prone to instability and crises, as banks and other financial institutions expand their operations in increasingly risky areas in search of higher returns (cf. Kindleberger 1989, Reinhart and Rogoff 2008). According to an IMF study, in a little over a decade after 1980 (a period of considerable deregulation of financial services) three-quarters of its members experienced financial problems. The problems reached crisis proportions in one-fifth of the member states (see Panić 2003, chapter 9).

Thanks to their economic and social consequences, the cost of resolving financial crises can be huge. It includes almost invariably prolonged periods of lower output, high unemployment, loss of income, lower investment and, as a result, economic decline instead of development. For example, the overall cost of the financial crisis in Argentina towards the end of the last century is thought to have been equivalent to 55 per cent of its GDP (Goldstein 1997). Following the Asian financial crisis in 1997, the ILO estimated that 10-20 per cent of the population in the worst affected countries would fall into poverty, causing major social problems in the long term (Lee 1998).

Deregulation of labour markets is having potentially even more serious economic and social consequences. It has already been responsible in many countries for lowering the health and safety standards, increases in income instability and wage differentials, lower benefits and higher levels of unemployment, including hidden unemployment (ILO 2004). In many developing countries, millions of women and children in particular are working for barely subsistence wages, often under unhealthy and dangerous conditions – all reminiscent of the worst forms of exploitation and abject poverty common in the nineteenth century in some of the now highly industrialised countries.

The result then was widespread internal unrest and conflicts, including revolutions (Hobsbawm 1962). It was this threat to the existing order that forced a conservative government in Germany to lay down in the 1880s foundations of the modern welfare state (Panić 2005b, Flora and Heidenheim 1981, Kleinman 2002), as a bulwark against irreconcilable social divisions, political instability, civil wars and revolutions.

Finally, the neoliberal package of *low public expenditure and restrictive fiscal and monetary policies*, far from improving economic and social conditions in a country, has played historically a major role in achieving exactly the opposite.

The policy rules that elevate inflation to the overriding objective of government economic policy and insist on balanced budgets and restrictive macroeconomic policies even in conditions of economic stagnation rest on the belief that ‘the markets’ will ‘automatically’ bring the economy back to full employment. That, as Keynes warned (with the Great Depression in mind), is a dangerous “delusion which disregards the lessons of historical experience without having behind it the support of sound theory” (quoted in Van Dormael 1978, p. 32).

A rigid adherence to these rules within the European Monetary Union has been an important reason for the slow growth and persistently high unemployment in the countries that joined it (Panić 2007). In the early 1980s the same policies more than doubled within a short period levels of unemployment and poverty in the UK, causing riots in several cities. Similar policies, with similar effects, preceded civil wars in Sierra Leone, Nigeria and Indonesia. The experience was repeated in Yugoslavia “following the liberal reforms of 1989” (Sambanis 2003, p. 20) imposed by the IMF, leading a few years later to armed conflicts and the country’s disintegration.

Cuts in public expenditure, as part of a deliberate policy of limiting the role of the state, exacerbate further these problems. Lower public expenditure makes it increasingly difficult for governments to keep, through resource transfers, income and other inequalities within socially acceptable levels; limits their ability to improve public goods; and prevents them from pursuing industrial, regional and other policies necessary for sustainable economic development. The same policies also help attract foreign firms into low income countries.

The experience of advanced economies (cf. Mathias and Pollard 1989) shows these policies to be essential for creating the conditions that ensure widely shared improvements in the standard of living, social cohesion and political stability – the only way, as emphasised earlier, for war torn countries to achieve a lasting break in the poverty-conflict cycle.

## **VI. Conclusion**

All internal conflicts, especially civil wars, involve serious costs: human, social and material. All wars also leave a legacy that the countries that have experienced them share: weakening of the capacity to eradicate their causes without external assistance, both financial and technical. As a result, the donors as well as the recipients have a stake in the objective for which the assistance is given and the responsibility for ensuring that it is used effectively.

This does not, of course, absolve the receiving countries from the primary responsibility for implementing the institutional changes required to achieve the necessary reconciliation, reconstruction and development goals. The important contribution that the donors can make lies in the influence that they can exert through the amount of aid that they are prepared to give, the period over which they commit it and the conditions that they attach to it. Each of these can make an important difference to the ultimate success or failure of the assistance.

Based on the experience of many countries over a long period, this paper develops a general analysis of the causes and costs of internal conflicts, responsibilities of the recipients and donors in ensuring that the aid is used effectively, and a critical evaluation of some of the criteria used widely to monitor and evaluate the outcome. As all the criteria are not equally reliable, the paper suggests a distinction between those that are universally valid, those that may be valid in some cases and misleading in others, and those policy prescriptions that, if implemented indiscriminately, invariably result in serious failure and should therefore be avoided, especially by fragile and post-conflict states.

The last suggestion is particularly relevant, as inappropriate conditions attached to the assistance, or its deliberate misuse, can exacerbate, even create, the very problems that foreign aid is supposed to help eradicate permanently.

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