

Achieving Socioeconomic Well-Being in Postconflict Settings

States emerging from conflict are not coincidentally also among the world's poorest. Fifteen of the world's 20 poorest countries have experienced internal conflict in the last 15 years.¹ These wars have spilled refugees over borders, often destabilizing neighboring states. Any visitor to these war-torn societies recognizes that without economic hope peace cannot take hold. Although poverty is not a direct cause of violence or civil war, it is a symptom of the decline of a state's capacity to protect and provide for its citizens.

For postconflict reconstruction generally, success is clearly premised on three conditions: (1) establishing security; (2) restoring good governance, which includes the rule of law; and (3) creating economic opportunity. Recent research on the political economy of developing nations suggests that a good policy environment is essential for economic performance. Good governance is the critical variable in a country's ability to overcome its conflict-ridden past.² Despite more than a decade of experience in postconflict reconstruction, the U.S. government has yet to form a coherent vision for dealing with these tasks. It lacks a deliberate program for linking immediate postconflict needs with medium- and long-term development. Even with the funding available through the U.S. Agency for International Development (USAID), the notion of a smooth transition from one phase of reconstruction to another is still elusive.

Intractable conflict and its economic roots have yet to become a serious subject for congressional deliberation or legislative action. U.S. foreign assis-

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Without economic hope, peace cannot take hold.

tance lacks a focus on conflict prevention. Additionally, none of its tools can handle conflicts driven by resources rather than ideologies. Two major deficiencies that further inhibit U.S. policy to address countries in conflict or with a history of conflict are slow response times in delivering assistance in war-torn countries and any form of flexible credit that would permit local actors to engage in any reconstruction effort. Until recently, socioeconomic tasks were considered part of long-range development assistance programs that could only begin once peace was at hand. We now know that development can take place even when parts of a nation are at war. Research also shows that, at the end of a conflict, a small window of opportunity exists to restore economic hope and social well-being. Without U.S. leadership, it will be lost.

The events of September 11 were central to the U.S. government's rethinking of development assistance. Where once advocating more foreign aid was unpopular, it is now a central feature of President George W. Bush's response to preventing terrorism. As the president has noted, "We must accept a higher, more difficult, more promising call. Developed nations have a duty not only to share our wealth, but also to encourage sources that produce wealth: economic freedom, political liberty, the rule of law, and human rights."³ This articulation of U.S. development objectives mirrors the work on human security currently underway at the United Nations (UN). It recognizes that poverty alleviation implies not only economic growth, but also personal security as a precondition to any other type of socioeconomic progress.

Achieving Social and Economic Well-Being

Of the four pillars of postconflict reconstruction, addressing social and economic well-being is the most varied and therefore the most comprehensive. Ensuring that citizens in war-torn societies can resume a normal existence requires more than just the care and feeding of refugees and the internally displaced. It means providing food security, public health, shelter, educational systems, and a social safety net for all citizens. An economic strategy for assistance must be designed to ensure the reconstruction of physical infrastructure, to generate employment, to open markets, to create legal and regulatory reforms, to lay the foundation for international trade and investment, and to establish transparent banking and financial institutions.

After conflict, certain minimum conditions are necessary to enable a country to progress from decay to development. The following seem essential:

- managing resource-driven conflicts effectively,
- establishing a legal regulatory framework,
- engaging the private sector in reconstruction,
- jump-starting trade,
- establishing basic education services,
- combating HIV/AIDS in postconflict settings, and
- targeting economic conditionality.

Current U.S. Government Capabilities and Gaps

The U.S. government has the capacity to provide humanitarian assistance, recognized as the essential core for saving lives and laying the foundation for social and economic reconstruction. U.S. humanitarian assistance programs, implemented primarily by nonprofit U.S. private voluntary organizations (PVOs) and local nongovernmental organizations (NGOs), are effective for three main reasons. First, they are well organized and funded, allowing them to respond rapidly to both natural and man-made disasters. Second, they have the skills needed both during crises and during the reconstruction process, including emergency management, vulnerability assessments, and development of early-warning systems for disaster preparedness. Third, U.S. government agencies manage short-term relief projects concurrent with efforts to create medium- and long-term economic growth in a rare example of interagency coordination (involving USAID's Office of Foreign Disaster Assistance; the Department of State's Bureau for Population, Refugees and Migration; and the Office of the Secretary of Defense and relevant theater commanders who may be engaged in humanitarian operations). If any issue about humanitarian assistance exists, it relates not to the quality or quantity of U.S. generosity, but to its use as a substitute for diplomatic preventive action and its dissociation from the broader postconflict reconstruction needs that follow a humanitarian crisis.

To achieve economic and social well-being, early assistance in these areas by the U.S. government in coordination with the international community and international financial institutions can help lay a solid foundation for good governance of the economy. Those in leadership positions in affected countries will also need to play an important role in advancing local interests. Bringing stakeholders into the process of economic and social reconstruction will create ownership of both policies and processes. Believing that such a partnership between local and international actors will make it fast or easy to achieve economic development, however, would be foolish. Fragile political environments, the private sector's reluctance to invest in unstable states, the concentration of wealth and resources in the hands of a

few powerful figures, the thinness of the financial sector and markets, and weak governance capacity will challenge both external actors and local stakeholders.

EFFECTIVELY MANAGING RESOURCE-DRIVEN CONFLICTS

Research on civil wars in the last decade has pointed to the central role that natural resources play in fueling violence. “War may be a continuation of economics by other means” is a play on Carl von Clausewitz’s famous maxim.⁴ Civil wars have created great opportunities for profits through un-

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derground economies that are often not available during peace. Weakened states, no longer able to manage economic policy and the institutions that govern them, are targets for rent-seeking groups. Criminals engaged in illicit business pay no taxes, and armed groups that can exact cash or resources through extralegal activities act as spoilers to any peaceful conflict resolution. Greed seems to be a key factor in perpetuating civil wars, particularly when providing personal security transforms from a public to a private good.

Most citizens lose from war, but a few powerful figures who gain from it can perpetuate fighting. In countries where one natural resource such as oil, timber, or diamonds is a primary export commodity (where export income accounts for more than 25 percent of gross domestic product), the battle to control these resources enhances instability and intensifies conflict.⁵

Despite evidence that reducing the profits of war is one way to restore stability, the U.S. government has yet to develop a coherent strategy that addresses this issue. U.S.-based extractive industries such as mining or oil producers must work with the U.S. government to develop both short- and long-term solutions to this difficult problem. Few if any tools exist to reduce war profits except for the goodwill and responsible action of private corporations. Recently, in Angola the private sector was the one to put Eduardo Dos Santos’s government on the spot when an NGO, Global Witness, exposed the discrepancies between the tax revenue collected from oil sales and the revenue reported by the ministry of finance.⁶ Transparency in corporate operations and earnings can empower citizens to rally against corrupt, rent-seeking elites. Beyond transparency, a diversified, rather than single-commodity, economy is needed. Development policies that eye economic diversity as a key component of reconstruction may in the long run be the best response to this difficult economic reconstruction hurdle.

To counter the monetary benefits accruing to some from war and remittances, the United States should:

- Encourage the U.S. private sector to develop specific industry-designed codes of conduct on war profits in conflict-ridden countries. As part of this self-regulation, U.S. corporations operating in postconflict environments should promote transparent accountings of their revenues in country so citizens of war-torn states are aware of government revenues from extractive industries.
- Create a public-private trust fund jointly with the World Bank, as part of a natural resources revenue strategy. This trust fund would capture income from international extractive industries operating in postconflict states so that it could be used to meet recurrent costs for essential services and recurrent costs of the government.

ESTABLISHING A LEGAL REGULATORY FRAMEWORK

Creating governing systems that are predictable and impartial, along with establishing economic rules for development, is crucial to any postconflict economic reconstruction. A judicial system must be able to uphold contracts, protect property rights, and ensure that commercial interests have a process that produces reliable and enforceable results. No country can be part of the international economic community without this. Often, the economic aspects of legal reform are treated as secondary to the immediate need to provide justice to victims of war. The two areas, however, are equally important to create the foundation for economic and social rebuilding.

Any legal system must reflect stakeholder laws and traditions, even if the international community plays an initial role in providing technical assistance and resources. Local approaches to justice should integrate existing practices that will provide immediate relief in commercial disputes rather than creating new systems of adjudication that may not be sustainable once assistance ends. USAID has some capacity to support this area, but in the last decade the U.S. government has decreased its assistance in legal regulatory law, delegating this type of assistance to the World Bank, and programming is ad hoc. The Department of Commerce supports some programs to help provide assistance on alternate dispute resolution and for export and trade. Programs in neither agency are geared to dealing with immediate postconflict needs. To solve these problems and implement a legal regulatory framework, the United States should:

- Establish a separate rule-of-law program to help postconflict countries establish basic legal and regulatory systems within USAID's democracy pro-

grams. This development should occur as part of its emergency conflict-management activities and part of its larger investment in rule-of-law programming. Such legal regimes must include effective civil codes, not just a criminal justice system.

- Prioritize interagency coordination of legal regulatory activities. The Commerce Department, State Department, USAID, and the World Bank should establish a working group to share information on current activities in postconflict countries. Joint assessment teams should immediately develop one strategic plan for the legal architecture of any reconstruction program to avoid duplication of efforts and wasted resources.
- Increase congressional appropriations to the Treasury Department's Office of Technical Assistance. This change could greatly enhance U.S. capacity to assist countries emerging from conflict to develop the important legal and regulatory architecture for entering the global economic market and for getting their own economies moving. Currently staffed by fewer than 40 people and with a budget of just less than \$10 million, the office could provide more technical assistance to postconflict states and further develop banking authorities and financial governance.

ENGAGING THE PRIVATE SECTOR IN RECONSTRUCTION

In any postconflict setting, engaging the local business community is a first step to economic well-being. Those who have survived a conflict, or those who have returned from neighboring states, are often the best hope for restoring local markets and securing local capital for domestic investments. Accordingly, local investment and indigenous business development must receive support, although social spending needs must also be met. The international community may have to support the salaries of the civil service, armed forces, and police, as well as meet pensions and other public-sector obligations. Not only will this action demonstrate the tangible benefits of peace, it will also ensure some stability to those who are essential to restoring economic infrastructure in a postconflict environment.

The international community must also look beyond national economic restoration to consider the importance of local community economic health by investing in microcredit and microlending programs. These initiatives have proven to be important factors in creating immediate access to resources for those affected by conflict. In creating programs for postconflict environments, investment must embrace national incentives to support local business development, while also providing the appropriate type of economic incentives to communities to restore both social and economic capital. All of these efforts lay the foundation for international economic engagement.

Private-sector strategies are not a magic bullet unless U.S. governmental support fortifies them. Instability, coupled with inadequate security, is a major deterrent to international investment. Among the most urgent needs are (1) emergency credit instruments for the private sector; (2) rethinking traditional programs available for normal commercial relations that could be modified for the postconflict period; and (3) specific technical assistance to new governments in need of open markets and support for local investment. Several U.S. government programs to provide emergency credit to exporters exist through the Department of Agriculture. Less emergency credit is available to private investors willing to work in high-risk opportunities because of inadequate programs for the private sector.

Despite certain reluctance by the international private sector to invest in high-risk environments, manipulation of U.S. corporate tax incentives could do much to manage investment risks while also providing medium- to long-range incentives for fostering new markets and international partners. New partnerships between the U.S. government and the private sector would cultivate a better understanding of the needs of countries emerging from conflict.

Wars also create waves of “brain drain.” Often the most educated and capable citizens are forced to flee conflict zones, thus robbing states of important human capital and capacity. A return of talent is essential for a country to recover not only its social capital but also its economic growth. Those who leave a country often do not return because restrictive immigration policies of their new homes provide no incentives for them to help their countries after conflict. This is certainly the case under U.S. immigration law. Reversing this loss of talent would go a long way toward creating a capable, economically viable postconflict state.

To increase the private sector’s engagement in reconstruction, the United States should:

- Expand support within USAID for emergency microcredit and microlending programs to communities emerging from conflict. The government should coordinate these programs with other efforts of the bilateral donor community as well as those developed by the World Bank. NGOs are often the best, if only, vehicle to provide resource distribution in countries where no banking sector exists.
- Create a specific fund within the Overseas Private Investment Corporation (OPIC) to address emergency high-risk credits to support immediate

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investments. No one-stop source of credit currently exists for U.S. businesses seeking guarantees to invest in postconflict countries. Both OPIC and the Export-Import Bank (EXIM) have credit criteria too restrictive for postconflict states. This type of a new fund would provide a one-stop credit source for U.S. businesses. It would also waive the requirement that no U.S. jobs be at risk, as the type of jobs created in postconflict states would not be detrimental to U.S. labor interests. The fund could designate countries that are important to U.S. national interests so that investors for places such as Afghanistan could be eligible for access to investment guarantees.

- Give U.S. embassies in postconflict countries additional economic officers whose responsibilities would include supporting investment opportunities and providing intelligence on the potential risks and benefits for the private sector. Contracting specialists for this position would be a fast and convenient way to get business-sector talent to a region quickly. This approach would complement the Commerce Department's U.S. Commercial Service, whose mandate is geared to normal commercial relations.
- Support training through USAID for business students seeking experience in managing postconflict reconstruction. A fellowship program, to include internships in key private-sector enterprises, would support greater understanding about the demands and potential opportunities of high-risk environments.
- Request the Immigration and Naturalization Service to review its immigration rules for U.S. permanent residents who would like to participate in "return of talent" programs to countries undergoing postconflict reconstruction. A simple regulatory fix could encourage many permanent residents to return home for extended stays by creating a release from their necessary time-in-class requirements for U.S. citizenship. No such waivers currently exist, thus inhibiting U.S. permanent residents from participating in reconstruction and development.

JUMP-STARTING TRADE

Opening domestic markets to foreign exporters, however, should go hand in hand with U.S. efforts to engage foreign businesses in commercial trade ventures. Developing countries are the fastest-growing export markets for the United States and will soon account for 40 percent of global trade.

Breaking down trade barriers in Africa and Asia could provide important incentives to U.S. businesses. Trade initiatives could support significant investment opportunities in such places as the Balkans, East Timor, Angola, or Afghanistan. Today, the U.S. government has ways to grant developing countries increased market access and beneficial trade preferences. For ex-

ample, Preferential Trade Waivers would be useful in postconflict environments because they offer unilateral trade preferences on exports entering the United States. The Caribbean Basin Initiative (CBI) of 1983 and the African Growth and Opportunity Act (AGOA) of 2000 provide models for duty-free and reduced-duty treatment. CBI and AGOA both seek to expand foreign and domestic investment in nontraditional sectors, to diversify beneficiary country's economies, and to expand those country's export bases.

To jump-start trade with postconflict economies and promote local investment, the United States should:

- Expand the mandate of the Trade Development Agency (TDA) to include specific funding mechanisms to assess the private-sector investment climate in countries emerging from conflict. This task would involve establishing the specific authority for providing information to large international corporations on opportunities and risks in these countries.
- Grant authority to the Small Business Agency (SBA), which currently supports technical assistance to developing nations, to expand its work in postconflict countries, developing specific programs to support expatriates residing in the United States to develop businesses at home. SBA programs could also be expanded to train local entrepreneurs in ways to reach U.S. import markets.
- Authorize and fund a new version of the CBI tailored to postconflict states, using the CBI and AGOA models. Such a fund could have a limited time frame of two years, but would also provide incentives for importers to work with businesses in those sites and help U.S. commercial interests gain access to potential markets. Successful participation in such an initiative could also lead to qualification for beneficial trade preferences through the General System of Preferences program, a medium-term goal.
- Establish a postconflict capacity to address potential investment opportunities for U.S. businesses with the U.S. Commercial Service. The service currently addresses only trade promotion in normal commercial environments and does not have the capacity to address postconflict economic environments.
- Establish a specific subcommittee on postconflict states for addressing trade- and investment-related issues within the Trade Policy Review Group under the auspices of the Office of the U.S. Trade Representative

Where exports of one resource exceed one quarter of the national income, trouble brews.

(USTR). This subcommittee should develop a policy framework for the U.S. government for states emerging from war.

ESTABLISHING BASIC EDUCATIONAL SERVICES

Wars disrupt education, thereby reducing a state's long-term capacity to grow economically. In postconflict environments, no consistent approach exists for this type of assistance. During the last decade, education assistance has decreased, relegating it to a minor component of development assistance. The net decline in literacy that accompanies economic downturns and wars demonstrates the need. A state's inability to support basic education also leaves room for religious schools that exclude women or indoctrinate young men to elevate violence as a political means.

Engaging the local business community is a first step to economic well-being.

Restoring education immediately after conflict sends a signal of hope to families whose lives have been turned upside down. In Haiti, for example, restoring schools in almost every district in 1994 and 1995 sent

a powerful sign to Haitians that life had begun to return to normal. Returning children to school also has an important deterrent power. Removing young men from the streets limits opportunities for militias to recruit. Schools also provide employment for many individuals in a community.

To improve the human capital of postconflict societies, the United States should:

- Establish a special Postconflict Education Fund, similar to the War Victims Fund, inside USAID to address emergency education needs in postconflict societies. This fund could provide seed money for partnerships with NGOs and other international agencies to help immediately restore educational services, return teachers from refugee camps, and provide books and school supplies. These resources should have “notwithstanding” (meaning “notwithstanding any other law” that might exist) authority to avoid delay in the disbursement of emergency money. This type of legislative authority allows a U.S. government agency to disburse resources without having to justify to Congress the merits of a project, the assumption being that delays to a program could compromise U.S. interests. Funding should prioritize community-based education.
- Formalize, fund, and prepare a joint USAID–Department of Labor program integrating funds and vocational training to implement emergency field programs in collaboration with the World Bank and other bilateral

donor agencies engaged in this issue. Demobilization and reintegration programs should focus not only on job creation, but also on vocational training and literacy.

- Designate certain postconflict countries to a special high-priority category for placement of Peace Corps volunteers with educational backgrounds. These volunteers can help train teachers as well as manage educational systems.

Combating HIV/AIDS in Postconflict Settings

Health care is a recurrent cost of any government. In postconflict societies, health delivery systems are often inadequate or nonexistent. The most urgent priority in postconflict environments, especially in Africa, is the prevention of HIV/AIDS. More men and women have died of HIV/AIDS in the Democratic Republic of the Congo than from that country's internal war. Programs in camps for refugees and camps that deal solely with demobilized soldiers returning to communities after any demobilization must make HIV/AIDS education and prevention a serious part of the effort to improve social and economic conditions. No genuine social and economic reconstruction program can turn a blind eye to this greatest threat to social and economic decline.

To combat the HIV/AIDS threat, the United States should:

- Mandate that all U.S. reconstruction programs provide for HIV/AIDS assessment, counseling, and prevention support—in addition to the \$200 million that it has committed to the World Bank/UN AIDS Trust Fund. USAID's Global AIDS funding should specifically address countries emerging from conflict as targets for investment, with the creation of specific initiatives in postconflict environments. Congress should designate special funds to support this initiative as part of the expanded foreign assistance budget request.
- Make the Department of Defense's one-time Africa-oriented HIV/AIDS prevention program directed at regional militaries an ongoing program. Members of the armed forces comprise a mobile and high-risk population. The Defense Department should add similar training programs for Eastern Europe, Asia, and the Caribbean.

Targeting Economic Conditionality

Two conditions affect economic performance in the postconflict period. One is the commitment of the affected state's leadership to specific types of re-

form, including respect for basic human rights and the rule of law. The second is open, transparent economic transactions. Aid conditionality without specific economic reconstruction objectives will not achieve the required reforms. Postconflict settings are considered to be poor policy environments and thus not likely to abide by the good-governance conditions of donors. Conditionality uses economic pressure as a means of more effectively convincing elites to change objectionable policies that inhibit international support. This tactic has been used with Serbia, where continued U.S. assistance toward reconstruction was directly linked to the elected leadership delivering indicted war criminals to the International Criminal Tribunal in The Hague.

To condition its aid more effectively, the United States should:

- Increase use of targeted conditionality to ensure that spoilers are hit the hardest through economic restrictions and other types of targeted approaches, such as travel sanctions and asset freezing, that harm only those who pose a threat to reconstruction.
- Review the structural adjustment conditionality that the International Monetary Fund imposes for its impact on U.S. government interests. Both the Treasury and State Departments should work with USAID to measure the impact of these conditions on U.S. development strategies for postconflict societies. The U.S. government should use its leverage to prevent further economic disaster.

Getting Our Own House in Order

The seven conditions noted above require the U.S. government to get its own economic house in order when developing a reconstruction strategy. The U.S. government lacks an overarching vision, speed in responding to economic reconstruction, and adequate emergency credits to stimulate exports and investments. Overcoming these obstacles will require central, coordinated leadership at the highest levels of government. Current U.S. government assistance programs in postconflict reconstruction fall short by not linking short-term economic and social needs with long-term development objectives. Yet, precisely those good-development practices that invest in economic growth within transparent administrative environments will allow an economy to flourish and make the difference between failure and potential growth.

A gap also exists between the onset of emergency programs put in place by U.S. military forces when a conflict has just ended and the start of programs that address transitional economic needs. Inadequate information

sharing, resource gaps, and a lack of systematic procedures complicate transference to the private sector, to the U.S. government, or to other bilateral development programs. Too often, the overwhelming nature of rebuilding a country that has been at war for a number of years has far outpaced the U.S. government's capacity to respond in any holistic way. Emergency humanitarian assistance that saves lives or quick economic-impact projects that create jobs and some community credit may exist but these short-term programs are often not sustainable. Success will depend on integrating the skills and capacities of different U.S. government civilian agencies. Without this comprehensive, long-term approach to social and economic well-being, external assistance is unlikely to prevent the recurrence of future conflict.

The most urgent priority in postconflict environments is the prevention of HIV/AIDS.

Since September 11, the U.S. government has recognized the ease of money transfers intended for nefarious purposes. Diasporas have frequently provided a resource that has fueled conflict in war-torn states and also supported terrorism. Foreign remittances have not only supported families in need of assistance, but also provided money to purchase weapons and salaries to sustain fighters in places such as Kosovo, Somalia, Northern Ireland, and Croatia. In light of recent events in Afghanistan, much remains to be done to limit diaspora money that helps support and sustain fighting.

To strengthen the effectiveness of its economic assistance programs, the United States should:

- Create an economic rapid-response capacity for economic recovery housed at the NSC. An Office for Economic International Security would help bring together all the relevant tools of the U.S. government in a timely manner, including a roster of private companies prepared to work in postconflict emergency environments. It would facilitate coordination between international financial institutions; the State, Treasury, and Commerce Departments; USAID; USTR; the TDA; EXIM; and OPIC to provide centralized and coherent responses to the immediate reconstruction needs.⁷
- Establish a regulatory mechanism within the Treasury Department to oversee the international distribution network for remittances. Such an office would provide citizens of foreign countries with a more reliable and secure means of receiving funds from accredited agencies while also preventing money from reaching the hands of illegal organizations from the outset.

- Create a memorandum of understanding between the Treasury and Defense Departments to monitor ongoing economic crises jointly. In postconflict environments, the U.S. military is often left to extract U.S. nationals from an economic meltdown. Working with the Treasury Department to establish an early warning system for economic crises would help the Defense Department plan for potential hot spots where a military operation might be necessary.

Conclusion

Crisis is part of the development process, and man-made disasters have often set back development gains. Integrating humanitarian programs with programs that look toward more stable and sustainable development is thus the best approach to recovery and reconstruction. U.S. leadership is needed to support programs that achieve sound economic governance and address the immediate needs of countries emerging from conflict. Effective measures to start a country's economic engines will ultimately prevent conflicts and help restore social capital. As the events of September 11 made apparent, the United States ignores the social and economic well-being of postconflict states at its peril.