



PROGRAM ON POST-CONFLICT STATEBUILDING

Literature Review: Post-conflict Public Finance

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CIC's proposed work on post-conflict public lies at the intersection of the literatures on public finance in developing countries and post-conflict transitions. The public finance literature is large but offers little guidance on how to adjust approaches to post-conflict settings where national and international actors balance the dual objectives of sustaining peace and laying the foundation for long-term recovery. The post-conflict transitions literature has relatively little discussion of economic priorities generally or public finance specifically.

Public Finance: There is a large literature on public finance policies and systems in developing countries that explores various options for raising revenue (collecting taxes, fees, and rents, foreign borrowing, expanding the money supply), various criteria for allocating expenditure (equity, efficiency), and optimal means for managing and executing expenditures (autonomous revenue authorities, tax/customs administration, financial management and treasury systems, etc.). Several "handbooks" summarize these lessons for policymakers (see, for example, World Bank 1998, McLaren 2003). This literature also discusses how fiscal policy impacts and is impacted by macroeconomic stabilization, economic liberalization, poverty reduction, fiscal sustainability, etc. (see, for example, Bird and de Jantscher 1992, Patel 1997, Toye 2000).

There is little discussion of the unique challenges faced by post-conflict countries (i.e., post-war crime waves, implementation of costly peace agreements, war economies, political and social polarization, low absorptive capacity and dramatic spikes in international aid) and the extent to which this larger literature is still applicable in post-conflict settings. Fafu organized one meeting on post-conflict public finance at the World Bank in 1999 at which considerable interest was expressed in developing new research in this area (Fafu 1999). Addison and Ndikumana (2001) argued that the "new state agenda" in Africa is both ambitious and essential and generating additional revenues to address the fiscal crisis of the African state is a precondition for statebuilding in Africa. These fiscal crises are most severe, they argued, in conflicted and post-conflict countries, calling for

reduced military spending, more grant aid, and more debt relief to free up additional resources for core spending. They did not address cases outside Africa nor examine how to prioritize non-defense expenditures. While Addison and Ndikumana cast fiscal policy as a precondition for statebuilding, Bird et al. (2004) argue that a more legitimate and responsive state is a precondition for improving fiscal policy, bringing in societal factors often overlooked in the public finance literature (but not looking specifically at post-conflict countries). Addison and Roe (2004) examine the fiscal costs of conflict and explore strategies for revenue mobilization in post-conflict recovery, exploring the strongly criminal dimension that many conflicts take on and the particular challenges this raises for public finance, as well as other ways in which conflict may impact the motives of key actors. They did not specifically evaluate the effectiveness of various international interventions, nor how to prioritize expenditure. Gupta et al. (May 2004) analyzed the types of fiscal advice provided by one institution (the IMF) to post-conflict countries and concluded that “additional research is need to ascertain the track record of countries in implementing these recommendations and what progress has been made toward more permanent improvements in the operations of fiscal institutions.” Finally, Collier (forthcoming), in contrast to research by Addison and Ndikumana, argues that taxes should be kept low in post-conflict countries to avoid “choking off” economic recovery (Collier forthcoming).

International financial institutions (IFIs) policy in this area is key given their strong intellectual leadership. In 1998, the Bank’s Operations Evaluation Department produced a five-volume report on *The World Bank’s Experience with Post-conflict Reconstruction*, analyzing all Bank operations in El Salvador, Bosnia, and Uganda, and an overview of experiences in Cambodia, Eritrea, Haiti, Lebanon, Rwanda, and Sri Lanka. This study concluded that “if tax effort and the pattern of public expenditures have a direct bearing on post-conflict reconstruction, as they did in El Salvador, it is legitimate to include these parameters in the conditionality agenda” (Kreimer et al. 1998). However, it was not until 2003 that the World Bank acknowledged officially that, in post-conflict settings, “the main objective over the short to medium term must be to consolidate peace.” (World Bank, 2003) This represents a break with the previously held view that these were “political” matters beyond the Bank’s purview. After 9/11, the Bank’s Low-Income Countries Under Stress or LICUS Initiative began to study how standard approaches to institution-building need to be adapted to fit low-capacity countries (i.e., identification of “zero-generation reforms”) and an evaluation of this initiative will be produced by the World Bank’s evaluation office in 2006.

The International Monetary Fund (IMF) has also modified some of its normal policies and practices, but has not introduced institutional changes comparable to those at the World Bank. At the level of formal policies, the main innovation has

been the expansion of the Fund's 'emergency assistance' window to cover specifically post-conflict assistance. In addition, Fund staff members have played key roles in re-establishing monetary, financial, and fiscal systems in places where they must be built more or less from the ground up, as in Bosnia, East Timor, Kosovo, and Afghanistan. Boyce (2004) reviews these openings for policy change within the IFIs and makes several recommendations for more "conflict sensitive" approaches, several of which relate directly to public finance (i.e., greater attention to horizontal inequalities, revenue mobilization, rethinking macroeconomic stabilization, and tackling the legacy of "odious debts").

Post-conflict Transitions: The second literature is the literature on post-conflict transitions which focuses on distinct types of transitions, critical risk factors, and various strategies and elements to strengthen peace and prevent a relapse into conflict. The peace literature has emphasized the importance of *security* (i.e., demobilization, disarmament and reintegration of combatants, police reform, civilian control of reformed militaries, international peacekeeping and constabulary forces), *justice* (i.e., criminal justice systems, transitional justice and truth commissions, international criminal courts), *political reform* (i.e., constitutional reform and elections), and *building conflict management capacities* throughout society. Within this literature, public finance issues have received very little attention and, as a result, there is little awareness among policymakers of the links between the state's ability to manage public resources and its ability to manage conflict. Woodward argues that "no international or local action in support of peace can occur without a budget or donor to tap" and yet economic aspects of peace agreements tend to take a "backseat" to security concerns (Woodward 2002). Exceptions include case studies on El Salvador (Boyce) and also Guatemala where the "fiscal pact" was closely linked to implementation of the peace accords (Stanley and Holiday 2002).

CIC's research on post-conflict public finance will undertake a series of country case studies focused explicitly on public finance and its links to building states and building peace. Drawing on these case studies, it will develop a set of recommendations for improving international assistance in this area, making an important and unique contribution to knowledge in both the public finance and post-conflict transition fields.

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