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INTRODUCTION

Given inevitable constraints of the fiscal year framework for development planning, not to mention the day to day rush of project design and implementation, development policymakers and practitioners often simply lack the time to engage in longer term strategic planning. While there is usually a general sense of what they want to see happen 10 years down the line, there is still a need to think more systematically about what should be done today to best ensure those goals are actually achieved. In other words, we need to increase our resources for thinking over the horizon and strive to better understand how to get to where we really want by acting earlier in a more coordinated fashion. *Foresight* is intended to help meet this need in a novel way, by offering new insights drawn from cutting edge evidence based academic research. Each issue will be dedicated to a single theme, to be defined through a dialogue between academic researchers and the policymaking community. Articles will synthesize current research from the perspective of what we need to think about today in order to achieve our goals 10 years from now. In this way, we hope to create a new nexus between research, policy and practice by disseminating the latest development research in a practical way that is in tune with the priorities of the development community.

FOREIGN ASSISTANCE AND POLITICAL MARKET IMPERFECTIONS IN POST-CONFLICT COUNTRIES

Philip Keefer

No one disagrees that post-conflict countries confront enormous development challenges. Some,

though, argue that the main challenge is the continued absence of security; others that it is the devastation wrought by conflict; while others maintain that it is state incapacity or the low level of economic development.

These disagreements have substantive policy consequences. Appropriate responses to the devastation wrought by conflict on the human and physical capital of a country include financial assistance from donors and policies that encourage private investment or the return of members of the diaspora. These flows matter less, even little, when the main challenge is insecurity; security assistance is then a necessary element of an effective response. In the face of political dysfunction, resource transfers are useful only to the extent that donors succeed in influencing political incentives to improve how resources are used.

Despite the publicity given to military or security interventions in post-conflict countries, the international community relies most on development aid – money, in-kind contributions and technical assistance to address the needs of these countries. This emphasis is easy to understand. Donors have well-established institutions for these transfers; resource transfers require no military commitment; they carry little or no threat to the sovereignty of the recipient; they are most likely to deliver tangible and visible, albeit often short-term, benefits to recipients; and they are better understood compared to political and security interventions.

Nevertheless, the argument in this note is that the political dysfunction that contributed to the emergence of conflict should be the key focus of donor assistance. In particular, donors should shape assistance strategies to address political market imperfections. These are characteristics of political competition and decision making in countries, such as uninformed citizens or the use of violence for political advantage, that drive a wedge between citizens and politicians. In the presence of these imperfections, which are typically more acute in post-conflict settings, most citizens cannot easily hold political actors accountable for performance failures, including the management of foreign aid. In the presence of severe imperfections, resource transfers have

a small effect and both sustainable development and sustainable peace are difficult to achieve.

For example, a typical priority of development aid is to support reconstruction and respond to humanitarian needs – replacing devastated infrastructure or fighting a conflict-induced HIV epidemic. However, even before conflict, these countries often exhibit conditions favorable neither to development nor (obviously) peace. Unless conflict has fortuitously swept away the pre-conflict sources of slow development and high conflict risk, assistance intended to restore infrastructure and services to their pre-conflict status cannot be sufficient to put post-conflict countries on a path to sustainable development and peace.

The next section of this note documents that resource transfers and capacity building are, in fact, the main focus of donor efforts in post-conflict countries. The section following outlines the political market imperfections to which post-conflict countries are particularly vulnerable and that render political incentives to pursue long-run development and to maintain the peace particularly weak. The note closes with suggestions for the design of development assistance to post-conflict countries. Donor strategies can do more to address the underlying political circumstances that both make conflict more likely and undermine development objectives. In many cases, this will involve what Boyce (2008) calls “peace conditionality”: linking the disbursement of assistance to recipient efforts to sustain peace. However, discussions of “peace conditionality” focus on what is needed to get combatants to stop fighting; the discussion here suggests a broader focus, critical to the sustainability of both development and peacemaking efforts, on the incentives of post-conflict rulers to serve the interests of citizens broadly.

What development assistance is actually provided in post-conflict countries?

Because the challenges of dysfunctional politics and violence are paramount in post-conflict countries, Collier, Hoeffler and Söderbom (2004) and others argue that military intervention, or third party direct investments in peace and security in post-conflict countries, have a higher payoff than any other action in preventing the re-emergence of conflict and in changing private and public incentives towards investment and public service provision. Nevertheless, peacekeeping interventions are relatively uncommon. Regan (2002) has data on interventions for 150 conflicts from 1945 to 1999. Of these, in 72 cases there was no outside intervention involving troops. The remaining 78 cases present a mixed picture in which, often, multiple interveners, variously supporting the government, the opposition, or acting neutrally, were active. Regan finds that international organizations (arguably most likely to be altruistic) intervened with troops in only 20 of the 150 conflicts.

Donors have instead focused on development assistance and, in particular, on development priorities that correspond to a country's income rather than on the idiosyncracies of its post-conflict status. This is evident if one contrasts World Bank assistance to the Democratic Republic of Congo (DRC) and to Bosnia-Herzegovina. From 2003-2008, among 22 loans by the Bank to the DRC totaling more than \$2 billion, almost half went to education (\$240 million) and health spending (\$615 million, \$300 million of which was targeted to HIV-AIDS). About 15 percent went to transport (\$325 million). None of these goals relates closely to mitigating violence or correcting politically dysfunction. Most of the remainder, which went to emergency support totaling about \$360 million, similarly targeted development needs, except for \$35 million that went to demobilization. About five percent went to governance and public sector

management reforms (\$110 million) (World Bank records).

Post-conflict Bosnia and Herzegovina was of course much richer, better-educated and healthier than the DRC, with far more developed infrastructure (e.g., transport). Development priorities were correspondingly different. From 1996 to 2003, more than twice as much Bank lending went to governance (\$135 million, or 13.7 percent of total World Bank lending, went to public sector governance) and about 55 percent went to growth-related activities (private sector development, 13.3%; energy and mining 12.8 percent; transport 12.4 percent; economic policy support, 9.1 percent; and 8.6 percent for the financial sector). Less than eight percent of lending was directed at health and education (health and nutrition 4.3 percent; education 3.2 percent). Social protection received 7.9 percent; and water supply and sanitation 3.3 percent. Urban and rural development and environmental loans made up the remainder of the program (World Bank 2004).

Bosnia and Herzegovina also reflects the fact that donors adjust their strategies when they address violence directly, through the commitment of military forces. Kang and Meernik (2004) find that OECD assistance to countries is significantly greater in post-conflict years, particularly in countries where OECD countries have undertaken military interventions. The higher priority given to governance and the greater involvement in Bosnia's post-war political affairs also reflect greater donor willingness to address the difficult issues of post-conflict government accountability when they have committed military forces.

When donors are not in a position to exercise strong influence over insecurity and political dysfunction, they often find themselves in the position of urging post-conflict countries to pursue policies that correct economic distortions even when this may exacerbate the risk of renewed conflict. Boyce (2008) reports that in the first

years after reconstruction started in Cambodia in 1979, multilateral assistance focused on fiscal stability and a civil service more appropriately sized to its responsibilities and capabilities. The government of Cambodia, however, rather than cutting the civil service by 20 percent, increased it by 15 percent, viewing civil service jobs as essential for political stability. A similar tradeoff emerged in Mozambique in 1995 (Boyce 2008, 67). In Iraq, foreign advisors pushed heavily for the cancellation of a food distribution program instituted under Saddam Hussein, which guaranteed every Iraqi household a basket of rations (oil, flour, etc.). While inefficient and leaky, the program was one of the few policy instruments for which the government could get credit: people were informed about what was due them and could easily monitor government compliance with the policy. The program was therefore retained (author observation).

In asking whether donors pursue “development conditionality” or “peace conditionality”, Boyce also concludes that donors, particularly multilaterals, emphasize the former: “In practice, efforts to reorient conditionality [to encourage the implementation of peace accords and consolidation of peace] have been the exception rather than the rule, and where attempted, the results have been mixed” (Boyce 2008, 5).

The example of Angola makes clear how difficult it is to provide assistance in post-conflict settings when the government is disinterested in the broader population. Kibble (2006) argues that the Angolan elite ignore citizenry needs since the rents they could extract from productive citizens are low relative to the oil rents that they control. Consistent with this, the Angolan government is slow to disburse World Bank loans that might benefit citizens generally. Over the first four years (2003 – 2007) of a six year, \$18.6 million loan to improve central government administration, only nine million dollars had been disbursed. Only \$39 million was disbursed from two loans totaling more than \$100 million

for emergency demobilization and reintegration of combatants (105,000 ex-combatants from UNITA, the losers in the civil war, and 33,000 from the Angolan Armed Forces). A social action fund has experienced solid rates of disbursement (83 million out of 121 million), but loans to improve the health sector, to improve rural incomes and access to education and health have not.

Arguments for resource transfers to post-conflict countries

The two most frequent arguments for significant resource transfers to post-conflict countries are that these reduce the risk of renewed conflict, by increasing incomes; and that they mitigate humanitarian crises that conflicts leave in their wake. With regard to the first argument, World Bank (2003) concludes that conflict is significantly less likely in richer countries, and Collier and Hoeffler (2004) argue that substantial aid reduces the risk of conflict recurrence. However, Suhrke, Villanger and Woodward (2005) contend that this result is not robust to small sample and specification changes. Keefer (2008b) shows that income bears little relationship to conflict if one considers only the countries with less than median income per capita – that is, the group of countries within which 85 percent of conflicts occur. Results from Miguel, Satyanath and Sergenti (2004), looking only at Africa, appear to respond to these criticism, showing that in this subset of poor countries, income drops, instrumented by rainfall, increase the probability of conflict. However, the underlying political factors that make conflict more likely are also likely to exacerbate the income effects of drought. Berman, Shapiro and Felter (2008) find that insurgency violence is lower in areas of Iraq that received greater government services, but this was in the context of broader counter-insurgency operations that included a significant security component.

The second argument assumes that the humanitarian needs of conflict countries are due to conflict. The extent to which humanitarian crises are conflict-induced, however, may be exaggerated. Manor (2008) notes that, while the devastation of large conflicts attracts significant emergency assistance, the emergency period is short, "...of the cases we analyzed, extreme emergencies soon – or eventually – subsided sufficiently to impel us to consider [longer-term issues]" (p. 25). Moreover, while the economic situation of citizens in many post-conflict countries is desperate, desperation also marked their lives prior to conflict.

Table 1: Life expectancy before and after conflict

Country	First Year of Conflict	Prewar Life Expectancy	Postwar average LE
Bangladesh	1974	45.3	61.5
Djibouti	1991	50.5	53.1
Guinea	2000	50.9	55.3
Guinea Bissau	1998	44.5	45.5
Guatemala	1966	47.0	
	1978	56.2	66.3
Kenya	1991	59.3	54.4
Mali	1990	45.9	50.9
Nicaragua	1978	57.6	67.5
Pakistan	1971	48.6	55.7
	1994	59.4	64.6
Peru	1980	58.5	69.3
Rwanda	1963	43.0	44
	1990	44.5	36
Sudan	1963	40.6	47.8
El Salvador	1979	57.1	68.9
Chad	2000	51.6	50.6
Yemen	1994	55.0	58.0
DR Congo	1967	42.0	45.6
	1976	45.9	47.8
	1996	44.6	46.0
Zimbabwe	1983	59.9	60.7

Source: World Development Indicators

Table 1 lists a number of conflicts for which life expectancy data are available and demonstrates that average life expectancy in the third, fourth and fifth years after conflict is higher than life expectancy before conflict. The point is not that conflict has no effect on life expectancy – it could be that conflict countries benefit less from secular downward trends in mortality, for example – but that the effects of conflict on the life expectancy of conflict survivors are not catastrophic. The Democratic Republic of Congo makes the case most starkly: life expectancy was terribly low after conflict, but also before.

Another way to see that that development concerns generally, rather than post-conflict reconstruction specifically, are the major challenge in post-conflict countries is to compare conflict countries to similar, non-conflict countries. Table 2 compares conflict countries and two sets of matched non-conflict countries. In both cases, a conflict country is compared to non-conflict countries that exhibited a similar vulnerability to conflict (propensity score) in the year before conflict.¹ Among non-conflict countries with similar propensity scores, that country is picked as a match with the closest income per capita for the first set of matches (Table 2a) and with the closest life expectancy (Table 2b). The values of life expectancy, measures of bureaucratic quality (capacity) from International Country Risk Guide, and child mortality in the third, fourth and fifth years after conflict are compared across the conflict and matching non-conflict country. Post-conflict countries are slightly worse than

¹ Propensity is calculated from a probit regression of civil war onset on real, ppp-adjusted income per capita; government consumption as a percentage of GDP, the fraction of the population that is rural, the fraction of the population under the age of 15, imports plus exports as a fraction of GDP, the fraction of land that is arable, total land area, the "stock of democracy" (years of democracy since 1900), ethnic fractionalization, and continent dummies. The score itself is simply the probability of civil war onset for a country the year before the actual civil war, based on the estimated coefficients of the probit regression and the country's values of the independent variables in that year.

matched non-conflict countries, but the differences are small. Moreover, the conflict and non-conflict matching countries are further below the world average with

regard to life expectancy, bureaucratic quality and child mortality than the conflict countries are from their matches.

Table 2: Conflict countries and matches: post-conflict averages.

a) match on propensity and income per capita (real, *ppp*-adjusted)

	Average of Conflict Country (N)	Average of Matched Country (N)
Life Expectancy	56.3 (25)	58.2 (25)
ICRG Bureaucratic Quality	2.25 (16)	2.41 (17)
Mortality (children under 5 years)	131 (25)	121 (25)

b) match on propensity and life expectancy

	Average of Conflict Country (N)	Average of Matched Country (N)
Life Expectancy	57.1 (19)	55.3 (19)
ICRG Bureaucratic Quality	2.25 (11)	2.15 (14)
Mortality (children under 5 years)	124 (19)	128 (18)

Note: Matched non-conflict countries are those with the closest GDP/capita (2a) or life expectancy (2b) among those countries with the most similar propensity scores. Propensity scores are calculated from a probit regression given in the text. Averages are of years three, four and five after the conflict. In some cases, one conflict/non-conflict country is the best match for more than one non-conflict/conflict country, respectively.

Political market imperfections and post-conflict recovery

A key determinant of both long run development and sustainable peace is whether government officials have incentives to pursue the broad public interest. These incentives, in turn, are a function of political market imperfections that distort decision making and deter politicians from pursuing the broad public interest. In post-conflict settings, the most damaging political market imperfection is the use of violence to gain political leverage. Post-conflict countries are also particularly likely to be socially polarized. Like many other countries, but more acutely, post-conflict countries also exhibit the

inability of political competitors to make broadly credible promises to citizens and uninformed citizens (political market imperfections highlighted in Keefer and Khemani 2005).

Social polarization (“grievance”) is one side of a long running debate about the relative importance of greed (the pursuit of rents) or grievance as a cause of conflict.² By itself, it can increase the risk of renewed conflict. In addition, in polarized settings individuals may care less about government success in achieving broad welfare

² Keefer (2008a), though, disputes the degree to which political competitors in sub-Saharan Africa make credible, broad-based appeals to co-ethnics.

improvements that benefit all. Finally, agreements between polarized groups are less likely to be credible than others, making the compromises needed for development or sustainable peace harder to achieve.

Continued reliance on violence to secure political advantage is pervasive in many post-conflict countries and engenders the greatest distortions in political accountability. It leads to decision making structures that privilege combatants at the expense of all others (e.g., by reserving political positions for those who are armed). Fear of violent retribution inhibits citizens from holding politicians accountable for their decisions. Moreover, lawlessness may be such that citizens judge politicians by how well they restore law and order and ignore performance on other margins, including those related to economic development.

Uninformed citizens are a political market imperfection that is common even in non-conflict countries, but is often acute in post-conflict countries. It both increases the risk of renewed conflict and reduces the incentives of government to act in the broad public interest. Since uninformed citizens cannot hold politicians accountable for unfavorable outcomes, because they do not observe the political decisions that led to those outcomes, politicians have little incentive to exert effort to improve outcomes. At the same time, de Figueredo and Weingast (1999) and many others point to imperfect information as an essential ingredient in conflict.

One final political market imperfection is the inability of politicians to make broadly credible promises, limiting their incentives to pursue policies in the broad public interest. In non-credible environments, Keefer (2008b) argues that the inability of political actors to make broadly credible promises to citizens is both a disincentive to pursue growth-promoting policies and a significant impediment to the formation of effective counter-insurgency capacity.

Political market imperfections are relevant to non-democracies, as well. This is important because of 68 conflicts that ended from 1975 – 2000, 29 had competitively elected governments two years after the conflict and eight had either a competitively elected legislature or executive. In the remaining 31 post-conflict episodes, elections were either not held or were tightly controlled.³ However, autocrats who can make more broadly credible commitments are better able to attract private investment and elicit bureaucratic effort (Keefer and Gehlbach 2008).

In both democracies and autocracies, the capacity to make credible promises to citizens is closely tied to the presence of institutionalized political parties. In democracies, institutionalized parties are those that appeal to voters independent of the party's candidates. They have mechanisms in place to discipline party politicians who undermine that appeal. Voters may prefer a party because of its policy program, or because of a party machine that delivers rents to supporters, or because of its competence; the party, in turn, has mechanisms in place to ensure that party members refrain from undermining the basis of the party's popular support.

Autocrats also make credible commitments by allowing ruling party institutionalization: establishing mechanisms of transparency and coordination among members of the ruling party that are forbidden to those outside the party. These attributes make the leader credible to members of the party (who can more easily overthrow him if he reneges); it also increases the willingness of members of the ruling party to invest, to defend the regime from outside threats, and to provide services to citizens who might otherwise revolt. Post-

³ From the (2004) conflict data and the Database of Political Institutions, Beck, et al. (2001).

conflict countries, whether democratic or not, are often far from exhibiting institutionalized political parties.

Implications for foreign assistance to post-conflict countries

Although this discussion implies that foreign assistance in post-conflict countries should take into account the effects of political market imperfections and, where possible, mitigate those imperfections directly, neither is easy. Short of directly combating armed groups, there are no obvious ways to reduce the high costs of delivering reconstruction assistance in a post-conflict environment where threats of violence remain pervasive. Nor is it obvious how donors should go about mitigating political market imperfections such as the lack of credibility of political actors. Despite these obvious difficulties, however, there is substantial scope for adjusting aid strategies to take into account political market imperfections.

Circumventing political market imperfections in the delivery of aid

In many settings, donors have no choice but to provide the same development assistance to post-conflict countries that they would provide to similarly-situated non-conflict countries. Donors may lack the mandate or (often military) resources to address violence or the lack of political credibility. If development assistance is to be even moderately successful, though, assistance strategies must circumvent these political market imperfections: implementation of education projects will lag when voters cannot hold political decision makers accountable for education performance, for example. Adaptation to political market imperfections takes place on two dimensions: the type of aid that is offered – ranging from cash transfers directly to citizens or capacity-building to budget support to governments– and the way

in which aid is delivered – through national or local governments, through NGOs, or directly by donors.

When political market imperfections are so severe that governments are incapable of serving citizen interests and on the contrary, may be preying on citizens, only humanitarian assistance, provided by foreign donors directly to citizens, can have any effect on citizen welfare. In environments with less extreme political market imperfections, donors can rely on governments to channel foreign assistance to improve citizen welfare, but only if they focus on the types of assistance that are least exposed to political market imperfections: those that are easily observable by citizens and do not require high government capacity. For example, citizens can most easily hold governments accountable for their implementation of programs to provide cash or food handouts to citizens in low-information, low-credibility, low-capacity environments. In contrast, efforts to improve the administrative machinery of government, such as the public sector financial management system, or the quality of education, place much greater demands on citizen information and government capacity.

In the case of social services, for example, the decisions of service providers and beneficiaries have a large effect on final outcomes (e.g., learning or mortality). This makes it difficult for citizens to assess the performance of political decision makers. If service providers are absent, citizens cannot tell whether the providers are shirking on their obligations to the central government, or whether central government officials tolerate absenteeism.

Citizens in post-conflict countries also rarely observe central governments' efforts to build capacity. For example, they generally are unaware of reforms to increase meritocracy in the civil service. Only if such reforms notably improve line performance can its effects be observed by citizens. Even then, credit for improved

performance may not go to the political decision makers who pushed for civil service reform, but rather attributed to the civil servants themselves. In post-conflict countries a large share of capacity-building assistance goes to public sector financial management systems with the purpose of minimizing the illicit diversion of funds. However, the same political obstacle exists: central government officials who refrain from corruption (often, the diversion of funds to their supporters) cannot be sure that they will get political credit for the services to which the resources are intended.

Adaptation to political market imperfections, then, evidently entails tradeoffs. By several development criteria, handouts are bad policy: they are not targeted (the more carefully targeted they are, the more difficult it is for citizens to observe whether they are supposed to benefit); the costs of raising revenues and of dispensing the handouts usually exceed the benefits received by citizens; and handouts do not directly increase citizen access to critical human development services. However, because the government commitment to provide universal handouts is easily observed and its performance easily verified, programs to provide tangible universal benefits to citizens improve government credibility or legitimacy. They therefore support long-run development objectives and peace-building in a way that improved social service delivery (assuming it could be achieved) does not.

With regard to how donor assistance gets transferred, one strategy is to rely on reform champions. When public-spirited, talented individuals run the education ministry, development assistance can have a large impact. Such occasions are rare and, typically, fleeting. Donors have three additional alternatives. One is business as usual, channeling resources to the relevant sector ministries with the usual fiduciary controls. This approach, when political market imperfections are severe, requires a high tolerance for leakages and inefficiencies.

Efforts to achieve any given level of sector performance will require correspondingly, and significantly, more assistance.

The second approach is to exert close, usually intrusive oversight over government management of resource transfers. The extra costs of supervision are likely to be lower than the leakage and inefficiency of “business as usual”. However, greater oversight comes at a political cost, the resentment of sovereign governments, and a potential development cost: citizens give donors, rather than governments, credit for sector reforms, possibly slowing the emergence of accountable government. In any case, donor decision makers are generally reluctant to increase supervision budgets, which come out of donor budgets.

The third approach donors can take to increase aid effectiveness in the face of political market imperfections is to bypass the central government by funding local governments or NGOs. In theory, local governments and NGOs can be as susceptible to venality or as incapable of delivering services as the central government. If, however, citizens can more easily hold local governments accountable for effective implementation of development projects, or if NGO success is more dependent on implementation success than is the success of central government officials, these strategies may succeed.

Operating through NGOs may help offset a key shortcoming in post-conflict countries, the inability of citizens to act collectively to defend their interests and, in particular, the absence of political parties that pursue the interests of members. NGOs that provide social services to citizens have the potential to serve this role. NGOs that do a creditable job providing services at least build a reputation for competence that stretches across the entire area to which they provide the services. That reputation has political value that could permit the NGO to compete as a party in elections.

Unfortunately, in many post-conflict countries, non-governmental alternatives are also often scarce. Manor (2007, p. 26) argues that in only four countries, Bangladesh, Brazil, India and the Philippines, do NGOs have national networks and the ability to deliver services nationwide. Moreover, substitutes for the central government may not even be available. For example, there is no solution outside the central government to the fear of expropriation, regional inequities, or a weak legal framework governing the financial sector.

Mitigating political market imperfections

Even the most creative efforts to work around political market imperfections can only succeed partially. The technical, administrative and political feasibility of directly mitigating these imperfections, though, depends on the imperfection in question. We know more about providing information to uninformed citizens than about building institutionalized political parties; security assistance to countries is more contentious than financial assistance.

In the case of imperfect citizen information, donors can pursue a variety of increasingly well-understood strategies, from the sectoral (informing citizens of the amount of government transfers to individual schools; building performance measurement and dissemination into their assistance projects) to the cross-cutting (support for initiatives that increase transparency in regulatory decision making). Information strategies such as these also allow donors to build up government credibility (or legitimacy) with citizens. If citizens can observe government promises regarding an assistance program, verify their fulfillment and have the capacity to expel non-performing governments, donors can both rely on governments to channel assistance to citizens and, by delivering assistance through government, help government to build up its credibility.

It is less clear how donors can support the creation of the institutionalized political parties that are at the center of political credibility in many successful countries. Party promises to citizens are credible to voters when voters know that parties can persuade individual party officials to implement the promises. However, officials can only be persuaded to subordinate their own priorities to the party's if the party's promises are valuable to voters. Institutionalized parties are therefore hard to start. This is particularly the case in post-conflict settings, where citizens are more likely to rely on individual politicians who can promise them protection, rendering such politicians less likely to accept the dictates of an institutionalized party. Similarly, charismatic leaders of a rebellion, with substantial, personal popular support, may be reluctant to surrender authority to an institutionalized party.

Violence and social polarization are still more difficult to address. When donors embrace outright security interventions, they often make alliances with powerful local groups to reduce the costs to their own militaries. However, the influence of these groups is difficult to tame once the conflict is over, with often unfortunate development consequences for countries. Even purely institutional responses to violence and polarization are fraught with ambiguity. For example, one response to continued threats of violence between "former" combatant groups is to assign ministries to the different competing groups. Another is to allow any of the groups to block government decisions with which they disagree. These embody numerous, poorly understood tradeoffs.

As long as political credibility is low and violence endemic, none of these groups will be accountable to citizens broadly and none can be expected to conduct policies in the public interest. Power-sharing serves only the purpose of preventing renewed conflict. The two also generate distinct patterns of decision making. In the first, each group has an incentive to treat the resources

of the state as a common pool and to exploit control of a ministry to deliver as many benefits as possible to itself (at the expense of all other groups) before the pool runs dry. The second prevents the race to the bottom, but it discourages rapid (or any) decision making. The depletion of public resources that emerges from the first strategy is almost surely worse for development, but the inability of combatant groups to extract rents to support their (armed) constituents is likely to be worse for peace.

It should be clear from this discussion that a focus on mitigating political market imperfections is different than a focus on political institutions. The latter is fairly common, but insufficient. For example, the United Nations and bilateral donors generally advocate democracy as crucial for sustainable peace (Busumtwi-Sam 2002). However, an abundance of evidence makes clear that elections are insufficient to tilt government incentives towards the provision of development-oriented policies or the conduct of a capable counter-insurgency. Political institutions that cement power-sharing agreements are similarly insufficient to encourage long-run development, and may discourage it. As Busumtwi-Sam (2002) and others note, formal institutions, including elections, are credible only because combatant groups retain the capacity to organize and to access weapons, in case other groups violate the institutional rules. Knowing that they can defend their interests against efforts by other groups to abrogate the institutional arrangements, they agree to abide by the institutions established for post-conflict political decision making.

Conclusion

Donors – and governments – in post-conflict countries have three objectives: responding to humanitarian needs and recovering from the destruction of conflict; finding a path to sustained growth; and cementing long-term peace. Unfortunately, country characteristics that prevent citizens from holding

government actors accountable for their performance shrink the menu of possible interventions that can be entrusted to post-conflict governments. Where these political market imperfections are severe, exclusive donor reliance on traditional development assistance can succeed only with significant donor oversight and, even then, only at high cost. Options, and complications, increase when donors also intervene militarily and directly address security concerns in a country, but this is not usual in post-conflict countries. On the other hand, the less acute is violence, particularly, and political market imperfections generally, the more that donor strategies in post-conflict countries can begin to address more aggressively long run development and peace-building needs of post-conflict countries.

Even in more benign settings, however, political market imperfections should continue to shape the goals and modalities of foreign assistance. The effects of imperfections are likely to be greatest on just those types of development assistance that post-conflict countries most often receive: assistance in the delivery of social services, large-scale infrastructure, and capacity-building in the public sector. For different reasons, in each of these types of assistance it is particularly difficult for citizens to hold political decision makers for policy success and failure. Failure to take this into account in the design of assistance is a recipe for limited efficacy. The Summary Table of Policy Recommendations outlines these options.

The notion that modesty is called for in structuring assistance to fragile states is not new (see, e.g., Manor 2007, p. 28). The rationale for modesty differs here, though. Manor emphasizes that large reform programs threaten powerful interests; the analysis here underlines the political incentives of governments to cater to vested interests rather than citizens more generally. For example, although high quality education and a level playing field for all firms are important for sustained

economic growth, in countries where violence is endemic, or where citizens are poorly informed about government decision making, or where political competitors can make credible promises only to narrow groups of citizens (clients) the weak incentives of political actors to pursue reform empowers special interests.

The analysis of political market imperfections in post-conflict countries, but also generally, points to areas of reform that would otherwise be neglected. Citizen

information, for example, may be a key obstacle to sustained development and peace, but absent a focus on political markets it does not generally rise to the top of the development agenda. While careful accounting for political economy constraints in post-conflict countries identifies specific limits on the efficacy of outside assistance, it also directs policy makers to new areas of intervention that have received little or no attention.

SUMMARY OF POLICY RECOMMENDATIONS

Development strategies in post-conflict settings

Political Market Imperfections		
(levels of violence and social polarization; opacity of government decision making; non-credible politicians and non-institutionalized political parties)		
Acute (e.g., violence endemic; no party firmly in control; politics entirely clientelist/no meaningful parties)	Significant (security problematic; parties non-institutionalized but one group firmly in charge; voters uninformed)	Moderate-Low (conflict only in a small part of the country, parties institutionalized, voters informed)
Corresponding Aid Policies		
Strictly humanitarian assistance (cash/food transfers), provided by donors or through NGOs, with security assistance	Greater reliance on government, emphasis on cash transfers and public good provision requiring less ongoing administrative capacity (roads and vaccines more than education); emphasis on information provision; reliance on NGOs.	“Normal” development assistance

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BIOGRAPHICAL NOTE

Philip Keefer is a Lead Research Economist in the Development Research Group of the World Bank. The focus of his work, based on experience in countries ranging from Bangladesh, Benin, Brazil, and the Dominican Republic to Indonesia, México, Peru and Pakistan, is the determinants of political incentives to pursue economic development. His research, on issues such as the impact of insecure property rights on growth; the effects of political credibility on policy; and the sources of political credibility in democracies and autocracies, has appeared in journals ranging from the *Quarterly Journal of Economics* to the *American Review of Political Science*.



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