

Center for International Private Enterprise

ECONOMIC REFORM

Issue Paper

No. 0806 August 29, 2008

Building Democracies and Markets in the Post-Conflict Context

Paper at a glance

- In post-conflict societies, reconstruction efforts must focus on rebuilding and strengthening institutions in addition to providing humanitarian aid and basic infrastructure.
- The private sector plays a crucial role in advancing reconstruction and establishing credible institutions that give post-conflict societies a sense of ownership and faith in the political and economic system and discourage the return of armed conflict.
- Institutional and economic reforms must be carried out at the grassroots level in order to cultivate a sense of responsibility within local communities and to engage the local private sector and civil society in meeting specific development needs of post-conflict countries.



published by the

Center for International Private Enterprise

an affiliate of the U.S. Chamber of Commerce

1155 Fifteenth Street NW • Suite 700 • Washington, DC 20005 • USA

ph: (202) 721-9200 • www.cipe.org • e-mail: cipe@cipe.org

authors:

Aleksandr Shkolnikov, Senior Program Officer for Global Programs
Anna Nadgrodkiewicz, Program Officer for Global Programs

The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth.

For more information, contact:

Center for International Private Enterprise
1155 Fifteenth Street NW • Suite 700
Washington, DC 20005
USA

ph: (202) 721-9200 • fax: (202) 721-9250
www.cipe.org • e-mail: cipe@cipe.org

Contents

Executive Summary • 3

Introduction • 4

A Framework for Reconstruction • 4

State-Building • 6

Institutional and Economic Reform as a
Basis for Recovery • 7

Rebuilding Institutions • 8
Rule of Law and Independent Judiciary
Democratic Governance
Legal and Regulatory Framework
Economic Stabilization

Developing Local Capacity • 10
The Role of Foreign Assistance
The Role of Civil Society Development
The Importance of Local Ownership

Taking the Next Steps • 14
Consolidating the Market Economy
Building the Basis for Lasting Peace

Successful Approaches to Grassroots
Reform • 17

Conclusion • 21

Executive Summary

Post-conflict reconstruction is a challenging process for any nation recovering from protracted violence, and is often looked at with a dose of criticism and skepticism. It is especially difficult when early hopes for better livelihoods, economic prosperity, and conflict resolution meet the realities of political battles, ethnic disputes, misguided policies, social disorder, and quarrels over key resources. Still, post conflict reconstruction can also be a time for hope. As reconstruction efforts mount, a unique window of opportunity for reforms opens up as domestic decision-makers, business leaders, social actors, and international donors come together in an attempt to create a more positive future for the citizens of a country emerging from conflict. Seizing this opportunity to implement real reforms is one of the greatest challenges facing all actors involved in reconstruction processes.

CIPE's experience suggests one way to approach the complex challenges of post-conflict reconstruction is to view the process as a balancing act of providing sufficient humanitarian relief without compromising longer-term development objectives. These longer-term objectives include developing institutions – not

government agencies, but political, economic, and social structures and mechanisms – that allow free market democracies to take root. These institutions do not emerge overnight and rarely take shape as originally envisioned. Yet, ultimately, the success of countries in building sound democratic governance and providing economic opportunities will be the determining factor in achieving prosperity, peace, and sustainability.

Another crucial element for reconstruction is avoiding top-down governmental or international initiatives, with little participation and input from the local population and various civil society groups. Building the reconstruction process around local groups gives credibility to the development effort and introduces a sense of accountability, as reformers ultimately become responsible for successes and failures before their own citizens, not donors or foreign governments. While it may be more of an art than a science, those involved in a country's post-conflict recovery must identify an effective way to use the expertise and commitment of local groups to achieve lasting peace and prosperity. In cases where local capacity does not exist, it must be created with the recognition that creating domestic capacity for reform is the only sustainable working solution.



Introduction

The term “reconstruction,” as applied to post-conflict countries can be somewhat misleading. It is often narrowly understood to mean the restoration of physical infrastructure: rebuilding houses, roads, bridges, factories, etc. In fact, these projects are often showcased in public coverage of reconstruction efforts, as they are easy to grasp and visualize – one can see a new building where it wasn't before, a government office with brand new computers on once-empty desks, or a functioning public utility system that lay in ruins just a year earlier. Although this physical element of reconstruction is undoubtedly important, experience shows it is not sufficient for the sustained, long-term political and socio-economic development of societies emerging from conflict. Equal attention should be paid to the reconstruction – and in many cases building from scratch – of institutions that underlie functioning market economies and democracies. Institutions are social, economic, and political structures that guide human behavior. These may be laws and regulations, as well as informal rules of human cooperation, a vibrant civil society, or independent media.

In other words, post-conflict reconstruction must provide sufficient humanitarian relief and physical infrastructure without neglecting the longer-term development objectives that can only be achieved through institutional reforms. This paper provides some guidance as to how such a delicate equilibrium can be achieved, focusing specifically on the institutional reform issues in post-conflict countries.

At the outset, it must be said that institutional development depends on a viable state structure, which provides a framework for security, rule of law, economic development, and political stability. However, state-building in countries emerging from conflicts is a daunting task. State institutions are often missing altogether; furthermore, there is a tendency to substitute them with international measures, even military intervention. Experience suggests, however, that although international participation is required, governance structures cannot be simply imposed by outsiders – local groups must be involved in the process to ensure legitimacy and sustainability. Their

participation in crafting and carrying out institutional reforms is just as important as external assistance. Importing wholesale successful initiatives from abroad, while tempting in the short term, offers no more than a provisional ‘band-aid’. What post-conflict societies need is comprehensive surgery, which gets at the root of the problem and restores local institutions with a focus on sustainable development and local capacity growth.

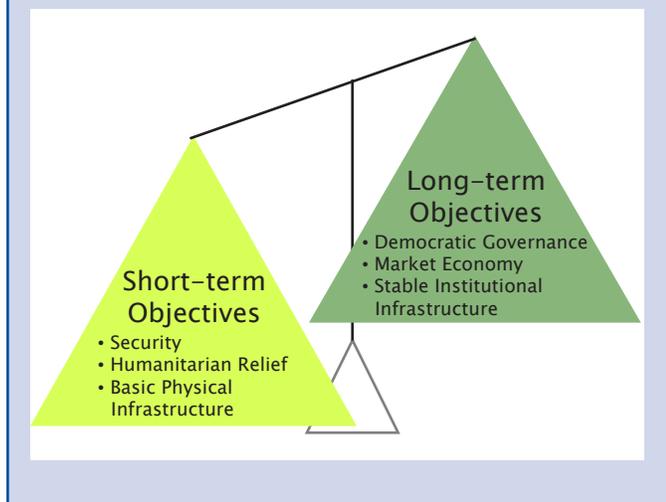
Efforts are needed to engage local groups in the reconstruction process; build the capacity of local stakeholders; and improve feedback mechanisms between the donor community, political actors, and civil society groups. These mechanisms are necessary investments in creating the institutional underpinnings of a peaceful society. Even the best imported blueprints for reconstruction grafted onto post-conflict areas are not likely to succeed without local participation; they lack credibility and a sense of grassroots leadership, and they fail to account for a country-specific context. Although ensuring local ownership of post-conflict reconstruction may make the reform process more complex, taking these steps early is essential if countries are to achieve consensus on reform and become sustainable democracies. CIPE experience shows that with the right support, local groups can lead rebuilding efforts, become drivers of reform, and improve the well-being of citizens in post-conflict countries.

A Framework for Reconstruction: Balancing Short- and Long-term Objectives

Post-conflict reconstruction is a balancing act between providing security, humanitarian relief, and physical infrastructure on one hand, and addressing longer-term development objectives on the other. The key challenge lies in providing sufficient relief to offset the daily pressures of conflict recovery without compromising the rebuilding and development of institutions as a means of sustainable public service provision, peace building, and wealth generation. Unfortunately, temporary institutions put in place to address immediate needs may outlive their purpose and end up hindering broader development efforts.

Commonly used images of successful post-conflict reconstruction often show new infrastructure projects and thriving street markets. These advances, while significant, can be misleading; booming street markets do not necessarily denote the presence of a market economy, just as rebuilt schools and roads do not always indicate a functional political system capable of providing public services. Restoration of physical infrastructure is essential, especially during the early stages of recovering from conflict, yet it is only part of a successful post-conflict reconstruction process. Lasting reconstruction can be achieved solely through the rebuilding of political, economic, and social institutions and the development of local capacity to run the government and economy.

Figure 1. Balancing Short- and Long-term Reconstruction Objectives



The balance between short- and long-term reconstruction objectives is in a way, reminiscent of Maslow's hierarchy of needs. Obviously, the satisfaction of immediate needs such as physical safety, shelter, and nutrition is necessary before higher-order goals – such as greater economic opportunities or democratic participation in decision-making – can be achieved in a meaningful way. The ability to prioritize key reforms is crucial in this process, as implementing everything at once is not a viable option; however, this does not mean that the reforms aimed at the longer-term objectives should be postponed indefinitely.

Once the most urgent social needs are taken care of, more complex market-oriented and pro-democracy reforms are vital to the success of reconstruction, since they help to create the basis for a prosperous society. That foundation, in turn, minimizes the risk of reoccurring conflict in the future.

Institutional reforms are at the heart of every successful post-conflict transition, and they are typically pursued through a combination of international aid and local-level involvement. State-building is the most basic first step in this process, whereby the structure and responsibilities of the government at all levels must be clearly defined and institutionalized. But governments do not operate in a vacuum.

In order to serve their function, governments must also make sure that a broader institutional framework is put in place, guaranteeing the rule of law, democratic participation in governance, a sound regulatory framework, and macroeconomic stability. To be successful, post-conflict democracies must deliver in three ways:¹

- The government must provide social services (schools, roads, vaccines, etc.), security, justice, and other basic services.
- The government must facilitate economic growth to improve standards of living by upholding market institutions, creating a positive investment climate, and allowing the private sector to flourish.
- The government must be responsive to public needs and demands; in addition to legislating policies that address public concerns, the government must follow through on these commitments and be held accountable by the public.

Accomplishing those goals is a formidable task for any country, but remains most crucial in post-conflict environments, where the capacity of the state, the private sector, and civil society is extremely weak. Moreover, post-conflict governments are under great pressure from their war-weary constituents to

be effective and produce results fast. It is a task that many countries find overwhelming. Yet this intense pressure creates the needed local momentum for reforms and, in careful combination with prudently applied international aid, it can mobilize a post-conflict country to address both its long- and short-term reconstruction objectives.

Finally, it is also important to remember that – somewhat contrary to its name – reconstruction is about more than just returning to the pre-conflict status quo. Instead, it is an opportunity to aim higher and reach for more freedom and social well-being compared to what existed in the past. For countries that used to be under an authoritarian rule or suffered from gross economic mismanagement before the conflict, reconstruction provides a unique opportunity for positive change. In this context, timing becomes the most important element of reforms in post-conflict countries. Dr. Ashraf Ghani, Chancellor of Kabul University and former Finance Minister of Afghanistan, points out the phenomenon of an “open moment” following any given conflict.² He defines it as a historical window of opportunity, typically lasting one to two years, when several different alternative futures are possible. The importance of getting the necessary institutional reforms “right” during this crucial period cannot be overstated.

State-Building

State-building is the first step in any long-term post-conflict reconstruction strategy. A state has to be

in place before democracy, as a participatory system of governance that extends beyond elections, can take root. The existence of a functional state also precludes the emergence of the private sector as the engine of sustainable economic growth.³ Without a state, there can be no long-term economic growth, job creation, improved security, and public services. This contests one of the common myths of development: if the state gets out of the way, markets will flourish.⁴ It must be recognized that there is a role for the state in creating conditions for economic, political, and social institutions to function. In fact, without a state, institutions will be weak and ineffective, leading to the disenfranchisement of citizens and stagnation in the development process.

While the state is vital to post-conflict reconstruction, simply acknowledging its role is not enough, and does not necessarily lead to positive development outcomes. Much more important is the approach to building state structures and institutions in the first place. In many reconstruction efforts, there is a tendency to impose institutional structures borrowed from other countries simply because they work elsewhere. The push to import state institutions is also explained by the inadequacy of local institutions and a lack of local capacity to design and implement reforms. However, as Francis Fukuyama warns, “stateness” cannot be provided by outsiders, as there is a danger of distorting incentives for creating domestic institutions.⁵ The result of a state-building process driven by outsiders is frequently a lack of institutional legitimacy and, consequently, weak performance.



What constitutes an effective state? Fukuyama distinguishes between the two different aspects of the state – its strength and its scope.⁶ The strength of the state reflects its ability to effectively enforce laws and uphold its commitments to citizens, while its scope relates to the government’s level of involvement in various activities. Established states have the luxury to undergo gradual reform and transformation, while post-conflict countries must simultaneously build the strength of the state and define its scope. There is no one-size-fits-all procedure for doing that. The approach to building up the two aspects of the state has to be flexible enough to absorb feedback from the reconstruction progress and respond accordingly.

Another acute challenge related to state-building is captured in the works of Nobel Prize Laureate James Buchanan. As Buchanan argues, the process of creating a state must be concerned with constraining the power of government to ensure that it does not become a *leviathan* that preys upon economic and political freedoms. In post-conflict environments, there is often a justified need to put in place certain mechanisms that allow the government to establish security, limit criminal activity, jump-start the economy, and provide basic public services. However, attention must also be paid to the power of the government and whether it can be used in the future to undermine the foundations of a democratic market economy.⁷ Throughout the state-building process, the ultimate goal of creating a sustainable, democratic system must be kept in mind.

Institutional and Economic Reform as a Basis for Recovery

Beyond meeting basic nutrition, sanitation, and health needs of the population, long-term social well-being depends greatly on the economic foundations and opportunities for employment and upward social mobility created during the reconstruction process. In one form or another, economic issues are regularly identified as major concerns of citizens in post-conflict countries. For example, according to a recent survey conducted by the Asia Foundation in Afghanistan,⁸ a poor economy, lack of reconstruction progress, weak governance, and unemployment were the main reasons 21 percent of respondents felt the country was moving

in the wrong direction. In addition to unemployment, which was cited as “the biggest problem” at both the national and local levels (32 percent and 34 percent respectively), other major national-level problems identified by all survey participants were security and corruption.

A greater challenge is that, in addition to being one of the top concerns in the reconstruction process, unemployment and poor economic conditions often perpetuate conflict. As former World Bank President James D. Wolfensohn noted before the UN Security Council in 2004, conflicts are often explained by a lack of hope, particularly among youth, yet “hope can be given by business and by jobs.”⁹ In fact, according to a World Bank report, “the lack of economic opportunity and resulting competition for scarce resources, more than ethnic, political, and ideological issues, lie at the root of most conflicts over the last 30 years.”¹⁰ While acknowledging the different root sources of conflicts, whether economic, political, territorial, or ethnic, it is also important to recognize that economic issues always play a prominent role in conflicts and post-conflict reconstruction processes. Studies that link conflicts and poor economic prospects often conclude that countries with higher per capita income have a lower risk of civil war.¹¹ It is more striking that negative economic growth shocks of just 5 percent can on average increase the risk of a civil war by as much as 50 percent.¹²

In this sense, the goals of post-conflict reconstruction may not seem very different from those of general development strategies. These goals encompass generating economic opportunities; creating jobs; eradicating corruption; and establishing grassroots-oriented, transparent institutions of democratic governance that make economic growth possible and provide citizens with a sense of ownership and participation. The very nature of post-conflict environments makes the path to achieving these goals very different from conventional development strategies. For instance, the timeframe and resources needed for post-conflict reconstruction are typically underestimated by initial assessments that tend to assume away some of the obstacles not present in traditional development efforts, and transaction

costs involved are often three times higher than in other contexts.¹³ Surpassing security in significance, the biggest barrier to post-conflict development is the absence of an institutional foundation to sustain democratic and free market processes. Without this foundation, the vicious circle of a poverty-conflict trap is likely to perpetuate itself in the future.

The Fund for Peace's *Failed States Index* published annually in the *Foreign Policy* magazine reinforces this ominous connection between weak institutions, failing economies, and the possibility of armed conflict. The 2007 edition¹⁴ ranked 177 states along 12 indicators of stability, including those that in particular evidence crippled institutions and an economy in shambles: uneven economic development along group lines, sharp and/or severe economic decline, criminalization and/or delegitimization of the state, progressive deterioration of public services, suspension or arbitrary application of the rule of law, and widespread violation of human rights.

Not surprisingly, most of the 20 countries ranked as "critical" (i.e., on the brink of failure to perform basic state functions) have recently experienced armed conflict or appear to be susceptible to the outbreak of violence in the near future.

While the index does not necessarily forecast when those states may experience violence or collapse, it does measure the levels of vulnerability to failure of significant parts of their societies and institutions. For each indicator, the ratings are on the scale of 0 to 10, with 0 representing the lowest intensity (most stable) and 10 being the highest intensity (least stable).

Focusing on the institutions that support the creation of a market economy in the early stages of reform is crucial given the relatively short-term expectations horizon common in post-conflict societies. Since the insatiability of conflict forces such societies to concentrate on immediate physical survival and satisfaction of basic needs, their expectations of improvements in their lives brought by peace are also very much focused on near-term results. Therefore, the need to demonstrate 'peace dividend' benefits becomes imperative and backsliding toward insecurity may

occur if the reconstruction efforts do not promptly translate into observable improvements in the quality of life for a significant segment of the population.¹⁵

Table 1. Failed States Index: Select Indicators of Instability for the 20 Worst-Scoring Countries

Country \ Indicator	Uneven Development	Economy	Delegitimization of State	Public Services	Human Rights
Sudan	9.1	7.7	10.0	9.5	10.0
Iraq	8.5	8.0	9.4	8.5	9.7
Somalia	7.5	9.2	10.0	10.0	9.7
Zimbabwe	9.5	10.0	9.5	9.6	9.7
Chad	9.0	8.3	9.5	9.1	9.2
Ivory Coast	8.0	8.9	9.5	7.9	9.2
Dem. Rep. of the Congo	9.1	8.0	8.3	8.7	8.9
Afghanistan	8.0	8.3	8.8	8.0	8.2
Guinea	8.5	8.5	9.6	8.9	8.6
Central African Republic	8.6	8.4	9.0	8.0	8.2
Haiti	8.2	8.4	9.2	9.0	9.1
Pakistan	8.5	5.8	8.7	7.1	8.7
North Korea	8.8	9.6	9.8	9.5	9.7
Burma	8.9	7.6	9.1	8.3	9.8
Uganda	8.5	7.5	8.5	8.2	8.2
Bangladesh	9.0	6.9	9.0	7.4	7.8
Nigeria	9.1	5.4	9.1	8.7	7.1
Ethiopia	8.6	8.0	7.9	7.0	8.5
Burundi	8.8	8.2	7.1	8.9	7.5
Timor-Leste	6.5	8.5	9.5	7.9	6.9

Source: The Failed States Index 2007

Rebuilding Institutions

It is important to remember that a defining feature of many countries emerging from conflict is total collapse of formal state institutions.¹⁶ Thus, there is a great need to simultaneously establish interdependent mechanisms for the development, implementation, and enforcement of reforms. But what reformers often overlook is the need to create participatory mechanisms for transparent and accountable governance as an essential part of these efforts. This point merits special

emphasis in light of the importance of a functioning market economy to post-conflict recovery.

Free markets do not spring up spontaneously. Instead, establishing viable and inclusive markets requires active efforts by the government, the business community, journalists, and other segments of civil society, since markets consist of institutions based on highly complex sets of politically formulated, government-enforced rules.¹⁷ In the absence of such broad-based social involvement in day-to-day political and economic decision-making, a true market economy fails to develop, and corrupt crony capitalism takes its place, with a handful of special interest groups monopolizing access to policymakers and manipulating the game to their own advantage.

While restoring the physical infrastructure and providing humanitarian relief and reliable utilities is important for a functioning economy, these steps alone are not enough to ensure market-driven democratic development. Complex institutional underpinnings need to be rebuilt – or created from scratch where they did not exist before – in order to facilitate a flourishing market economy and good democratic governance.

Rule of Law and Independent Judiciary

Restoring the rule of law and an independent, fair judiciary system in post-conflict societies is among the most pressing institutional needs because it ensures the physical safety of the population and promotes a secure and predictable environment in public life. A sound law enforcement system is also a necessary part of the market economy. Without secure property rights, enforceable contracts, and an effective way to adjudicate disputes, assets such as land or housing cannot serve as loan collaterals or investment capital; trade is difficult and transactions inefficient; deal flow remains low; and much-needed economic growth is difficult to achieve.

A well-functioning judiciary is also essential for uprooting the culture of graft generated by the lawlessness accompanying conflicts. In the words of Liberian President Ellen Johnson-Sirleaf, elected after 14 years of disastrous civil war, corruption

remains “public enemy number one”¹⁸ in post-conflict countries, and building institutions that help to fight it is of utmost importance. In addition to drafting and implementing the legislation necessary for corruption-free governance (such as transparent public procurement procedures), an independent judiciary is essential for keeping corruption in check.

Democratic Governance

One bright side of post-conflict reconstruction in some previously non-democratic countries can be the opportunity to transform a country’s old political system; however, a functioning democratic system involves more than just leadership selection, even through free and fair elections.

At the core of a working democracy is how a government makes decisions on a day-to-day basis. Local input from diverse stakeholders is necessary in the decision-making process, and may come through public hearings, roundtables with policymakers, or advocacy and other forms of civic activism. Only such broad-based participation can ensure the lasting legitimacy of the government, monitor its performance, and provide the population with a sense of ownership of the enacted reforms.

Independent media also play an indispensable role in democracies and market economies in this respect. They have a dual function of providing information about current political developments and the state of the economy, and serving as a watchdog of those in power. This function makes free media important in anti-corruption efforts, helping the public reach informed choices in a transparent business climate.

Legal and Regulatory Framework

Restoring the rule of law is an important part of post-conflict recovery, but equally important is the creation of mechanisms that allow for the modification and improvement of existing laws in a democratic manner, including rules that create a legal framework for a functioning market economy. After all, laws on the books may be outdated, unjust, unenforceable or otherwise unsuitable for new post-conflict realities.

Reconstruction creates a unique momentum when such flawed, entrenched laws can be replaced by a more effective framework. Therefore, the new system must incorporate the mechanisms for transparent and accountable governance, both in the public and private sectors. This is no easy task, given the magnitude of vested interests of various influential groups in maintaining provisions that benefit a few at the expense of the economy as a whole. However difficult, introducing such reforms is necessary to ensure the lasting success of post-conflict reconstruction.

From a long-term development perspective, it is crucial that a revised legal and regulatory environment is conducive to entrepreneurship and business, so that growth-spurring economic freedom is secured and its benefits available to all on an equal footing. In order to accomplish that, government must strive to become a transparent, arm's-length regulator rather than an active player in the economy that chooses winners and losers and arbitrarily dispenses economic privileges.

Economic Stabilization

Armed conflicts disrupt not only a country's social and political fabric, but also the basic ability of an economy to function. Conflicts create incalculable material losses, not only in terms of resources diverted toward military ends or the costs of reconstruction, but also in terms of lost economic growth and development. It is no coincidence, then, that states emerging from violence are among the poorest in the world. In fact, 15 of the world's 20 poorest countries have suffered periods of conflict since the 1980s.¹⁹ Consequently, the key objective of post-conflict reconstruction efforts is to restore the domestic capacity for a productive and dynamic market economy in order to establish the basis for a prosperous society.

In particular, high inflation is a problem common in many post-conflict countries, destroying savings, discouraging investment, and undermining popular confidence in economic recovery. Its root cause is a budgetary imbalance that leads governments – pressed for increased spending but short on revenue – to print more money in order to satisfy their obligations. Therefore, it is imperative that post-

conflict states bring their budget deficit under control, create a reliable financial system to provide checks on the government's monetary policy, and introduce business-friendly conditions to restart the activities of the private sector.

Developing Local Capacity

State-building is a departure point for developing an institutional base for political stability, sound economic growth, and social progress. Many different studies have outlined the priorities discussed above: establishing the rule of law and a proper security environment; building the institutions of a stable democracy, governance, and participation; rebuilding legal and regulatory infrastructure and putting in place mechanisms of a competitive market economy; and ensuring social well-being. In light of this existing research, rather than asking *what* needs to be done, one should focus on the question of *how* can it be accomplished?

The Role of Foreign Assistance

The topic of donor assistance cannot be avoided in discussions of post-conflict reconstruction and its effectiveness is frequently debated. On the extreme ends of the spectrum, there are claims that foreign aid does not have a significant positive impact on countries' development prospects or that more aid is what countries really need to help the poor move up the development ladder. Proponents of aid suggest that aid mechanisms have evolved over recent years and that there are programs that successfully reduce poverty, improve standards of living, and facilitate access to resources. The opponents of aid argue that it distorts incentives for reform in recipient countries and does not facilitate the development of free market economies and governance mechanisms that allow people to lift themselves out of poverty. Instead, they argue, countries grow dependent on aid, much of which is diverted from the intended recipients to the pockets of well-off elites who face few transparency and accountability pressures.

In the case of post-conflict countries, however, few would stand against the need for international

Policy Toolkit for Institutional Reform in Post-Conflict Country Government

Rule of law and independent judiciary

- Restore the rule of law through adequately paid and well-trained military and police force reflecting ethnic, tribal, or religious makeup of society.
- Protect human rights and promote legal empowerment of disadvantaged social groups.
- Create independent courts, recruit and train judges, lawyers, and legal personnel.
- Build professional civil service with accountability at all levels, pay and promotions based on merit.
- Separate inspections from enforcement to limit bribe extortion, make penalties commensurate with offences.
- Ensure equal access to justice and apply the law equally to all.

Democratic governance

- Specify division of power between the legislative, executive, and judiciary, and between national and local governments.
- Constitutionally guarantee and defend essential civil rights and political freedoms.
- Build representative system of political parties and freely elected government.
- Enable broad-based participation of diverse stakeholders in political and economic decision-making.
- Train journalists in the professional practices and ethics of reporting.
- Ensure access to information (public rights to attend meetings, hearings, view government records, etc.).
- Strengthen civil society and civic participation by including minorities and previously marginalized groups.
- Educate youth about the principles of democratic governance and the market economy.

Legal and regulatory framework

- Create legal mechanisms for ensuring transparency, accountability, and responsiveness of decision-makers to reduce incentives for corruption, both in the public and private sectors.
- Introduce and enforce legislation essential for functioning markets (property rights, commercial and labor law, competition policy, etc.),
- Simplify tax codes and remove bureaucratic and legal barriers to doing business.
- Sequence reforms so that they correspond to the priorities on the ground (e.g., designing the stock market before more basic market structures are in place can be counterproductive).
- Allow for the establishment of independent private sector associations, chambers of commerce, and think tanks and seek their input on economic reforms.
- Create equitable system for tax collection to restore the state's domestic revenue base.

Economic stabilization

- Create an independent central bank to control inflation; when necessary, consider exchange rate peg.
- Establish clear budgeting and procurement procedures (including independent external audits).
- Cap government employment numbers and realistically evaluate the state's capacity to spend.
- Examine the viability of existing state-owned enterprises and restructure the failing ones.
- Make reinvigorating the private sector and reducing informality a vital part of the reconstruction efforts.
- Develop the financial sector to meet the demand for banking services and affordable lending.
- Facilitate trade and investment, foster integration with the global economy.

Sources: James Dobbins, Seth G. Jones, Keith Crane, Beth Cole DeGrasse, *The Beginner's Guide to Nation-Building* (RAND National Security Research Division, 2007); "Post-Conflict Reconstruction Essential Tasks Matrix," U.S. Department of State, April 2005; "Framework for Success: Societies Emerging From Conflict," United States Institute of Peace, August 2007.

assistance, both financial and technical. In fact, such assistance is instrumental in helping post-conflict countries to establish the basic foundations of peace, provide daily necessities, and offer key public services.

Not all international assistance mechanisms are the same – there are a wide variety of programs and approaches. Some may be effective in addressing daily needs and necessities in post-conflict reconstruction, while others may target longer-term development priorities. Similarly, some programs may focus on smaller, local reconstruction projects, while others may support initiatives on the national level.

Among the most dangerous mistakes that any program pursued by the international community can make in post-conflict countries is to assume that areas emerging from conflict are a blank slate waiting to be populated with solutions brought from the outside. Although conflicts indeed often precipitate the collapse of formal institutions, it does not mean that informal rules and norms have disappeared as well. Therefore, prior to engaging in a given country, foreign donors should study the local context, understand the informal local institutions, and explore how the intended impact of their aid will depend on those pre-existing conditions.

Another detrimental tendency among donors is to inadvertently crowd out the state from the delivery of essential public services. Such a duplicate system financed from the outside undermines the authority of government and the taxation-representation nexus, which forms the basis for the local population's leverage over its government. Finally, coordination among donors and sequencing aid flows is often problematic: high volumes of initial aid can exceed the institutional capacity of a post-conflict country to absorb them, but are not sufficient to sustain long-term institutional reforms. Arguably the most damaging attitude foreign donors can adopt is that of 'experts' on the subject of reconstruction, applying universal templates to highly versatile post-conflict environments. While lessons learned from other countries are certainly of value, no one-size-fits-all solution exists for the complex challenges of post-conflict recovery.

Policy Toolkit for Institutional Reform in Post-Conflict Countries: Foreign Donors

- Include local actors in reconstruction to ease the gap between perceptions of foreign-imposed state with its corresponding elite and the rest of the society.
- Do not create expensive state institutions that may turn out to be unsustainable once the aid dries up.
- Treat long-term security as a question of institution-building, not just military and police capacity.
- Facilitate good governance-enhancing reforms early in the reconstruction process.
- Avoid establishing systems of service delivery parallel to those financed from the national budget.
- Coordinate aid flows and priorities with other donors and sequence the aid flows properly.
- Use aid money to facilitate the development of market institutions; do not regard it as a substitute for endogenous growth.
- Support the private sector by not discriminating against local companies in awarding important bids for aid projects (large international companies are often favored in the process).
- Do not over-inflate pay scales that pull qualified local staff away from business and civil service.
- Avoid excessive subcontracting (especially with non-local actors) in order to ensure accountability and quality control of the technical assistance.
- Monitor the actual outcomes of aid projects, not just the amounts of money spent.
- Maintain a balance between the need for accountability of recipients and the risk of overwhelming them with aid-related bureaucracy to the extent that it distracts from their daily work.
- Beware of indiscriminately applying international "best practices" in reconstruction.

Sources: Peter J. Middlebrook and Sharon M. Miller, "Lessons in Post Conflict Reconstruction from the New Afghanistan Compact," *Foreign Policy In Focus*, 27 January 2006; "Post-Conflict Institution Building in Fragile States" lecture by Dr. Ashraf Ghani at the United States Institute of Peace, June 29, 2005; Dr. Omar Zakhilwal, "State-Building in Afghanistan: A Civil Society Approach," *Economic Reform Feature Service* (CIPE: 7 April 2005)

Ultimately, while foreign assistance is an integral component of the reconstruction process, success depends on the establishment of a state and the rebuilding of key political, economic, and social institutions. From a sustainability perspective, while projects should address short-term needs, they also

must focus on structural reforms so that countries can take ownership of problems and resolve those problems on their own. Thus, truly effective foreign assistance must be forward-looking and prepare local actors to take control of reconstruction in the long term. For instance, incorporating traditional institutions and mechanisms for decision-making – such as *shuras* (village-level councils) or *jirgas* (tribal assembly of elders) in Afghanistan – in the implementation of foreign aid can boost the legitimacy of aid projects and a sense of reform ownership. Based on this and other lessons from post-conflict reconstruction in Afghanistan, several key policy recommendations can be drawn concerning foreign assistance. They broadly follow the five themes outlined by the 2005 OECD Paris Declaration on Aid Effectiveness: local ownership, alignment of aid with national development strategies, harmonization of donor actions, better managing of resources and improved decision-making, and mutual accountability for development results between donors and partners.

The Role of Civil Society Development

Herein lies another set of challenges: how does a reconstruction plan transition from humanitarian relief efforts to broad-based development? How does it introduce accountability into the international assistance framework and ensure that countries are not flooded with more money than they have the capacity to absorb? How does it ensure that the *means* of development, as well as the *ends*, become the focus of reconstruction efforts?

Part of the answer is that reconstruction assistance must develop the capacity of local groups to design and implement reforms. If these local civil society groups do not already exist, they must be created from scratch. As Larry Diamond has noted, reconstruction efforts must “proceed with some humility and a decent respect for the opinions of the people” who are ultimately on the receiving end of reconstruction.²⁰ This is what helps to build *legitimate* institutions that are grounded in local realities, needs, and concerns. Francis Fukuyama brings up a similar point in an interview with CIPE. When talking about reconstruction in Iraq and Afghanistan, he notes that “the secret is to give [countries] enough

governance to get things going again, but to figure out a way to have it be Iraqis or Afghans that are doing this.”²¹

The caveat that civil society groups and donors must address is that reconstruction programs carry significant potential for corruption. As Peter Eigen highlights in Transparency International’s *Global Corruption Report 2005: Corruption in Construction in Post-Conflict Reconstruction*, corruption in public contracting is present in post-conflict environments because of “weak government structures, thriving black markets, a legacy of patronage, the sudden influx of donor funds, and the need to buy the short-term support of former combatants.”²² Transparency International’s 2007 *Corruption Perceptions Index*²³ clearly shows this strong presence of corruption in post-conflict environments, with many of the 10 bottom-ranked countries having a recent history of violence. Countries are rated on a scale of 0 to 10, with 0 indicating the highest and 10 the lowest levels of corruption.

Table 2. Corruption Perceptions Index: 10 Bottom-Ranking Countries

country rank	country	2007 CPI score
168	Laos	1.9
172	Afghanistan	1.8
172	Chad	1.8
172	Sudan	1.8
175	Tonga	1.7
175	Uzbekistan	1.7
177	Haiti	1.6
178	Iraq	1.5
179	Myanmar	1.4
179	Somalia	1.4

It is essential to fight corruption in post-conflict countries because it undermines the legitimacy of reconstruction and prevents humanitarian relief from reaching its target recipients. This requires the development of institutions of transparency and governance, which is another example of the true importance of institutional development. An active civil society can serve to reinforce and uphold the legitimacy of these institutions.

Lebanon's experience is illustrative of civil society's role in promoting long-term institutional reform. Corruption was one of the permanent features of Lebanon's reconstruction following the 1975-1990 civil war. As rent-seeking behavior paralyzed the political system in the early 1990s, the country's development also stalled. The government's increased role in the reconstruction process and the large number of large-scale reconstruction projects also proved to be a breeding ground for corruption, as the public grew increasingly unhappy with the country's governance institutions. Early efforts to tackle the corruption problem through government-led administrative reform resulted in the dismissal of thousands of civil servants, but had only a small impact on the magnitude of corruption.

It was not until civil society groups emerged and began to focus on building a consensus and implementing a national anti-corruption agenda that the issue was effectively and systematically addressed. The private sector came forth as one of the key advocates for transparency and good governance, as it had become aware of the damaging effects of corruption on competitiveness. At the same time, international stakeholders, including the United Nations, the World Bank, and the European Union exerted pressure on the government to address widespread corruption. Eventually, citizens began to demand change, and Lebanon witnessed the election of a more reform-oriented government in 1998. Private sector organizations such as the Lebanese Transparency Association were able to rescue the debate on corruption from political deadlock and refocus it on corruption's damaging effects and possible solutions.²⁴

The Importance of Local Ownership and Incentives

When integrating local groups into the reconstruction effort, there has to be enough tolerance for "learning by doing." In many cases, local organizations may lack certain skills, and their inability to complete a certain project with due quality should not serve as a deterrent. Rather, their capacity to improve must be developed. This prerequisite also means that local reformers should not be overwhelmed with an overambitious scope of activities or too many financial resources.

Douglass North, who won a Nobel Prize for his pioneering work on institutions, captures best the importance of local focus on institutional reforms. He argues that institutions cannot be transferred wholesale; something that functions well in one country will not necessarily work well in another.²⁵ He also warns that local culture should not be ignored, and most importantly, that incentives play a fundamental role in the reconstruction process. If no incentives exist for citizens and the government to improve governance, commit to fair play, engage in competitive market activities, and support the rule of law, then institutions are unlikely to take root.

In her evaluation of post-conflict reconstruction in Bosnia, Sanja Omanovic ponders why, after billions of dollars in aid, a market economy and democratic governance have yet to fully develop.²⁶ What she observed over the years in Bosnia reinforces the importance of incentives and legitimacy – much of the institutional development has been driven by outsiders and there are no incentives for local leaders to design and implement reforms. Politicians, she notes, are more focused on:

...nationalistic rhetoric instead of developing serious economic and reconstruction programs. This can be easily understood...since there is almost no need for them to think about economic issues: the World Bank and IMF will do that for them at the macroeconomic level, and other international institutions will act at a lower, microeconomic level. Even if local politicians want to do something on their own, they have to ask these foreign institutions for approval.²⁷

Putting reconstruction in the hands of local groups is an ambitious task, but it is required if countries are to assume ownership of and responsibility for institutional reforms and humanitarian relief. Where local capacity to implement reforms and lead humanitarian relief is weak, efforts should focus on building it up, rather than replacing it with external leadership.

Ultimately, the idea is more art than science – in each case, there has to be just the right amount of assistance to jump-start the reform process, yet not so

much as to distort incentives, undermine legitimacy, and thwart long-term development at the expense of short-term needs.

Taking the Next Steps

Once the reform process is underway and basic institutions are in place, how can a country maintain a stable democracy and market economy? What can be done to ensure that the reform process is not hijacked by a narrow group of special interests with detrimental effects for the country as a whole? The answer lies in capturing and consolidating the early gains of democracy and market economy during the “open window” period of post-conflict reconstruction.

Consolidating Democracy

Establishing and preserving a stable democratic system is crucial for avoiding the reoccurrence of conflict. According to a recent study, democratic institutions that allow political competition and checks and balances within the government are the determining factors of political stability.²⁸ The authors conclude that in order to develop a liberal democratic regime, factionalism should be avoided at all costs. This means that political parties, as representatives of citizens in the democratic policymaking process, must be able to reach compromises, participate transparently in the governance process, and develop grassroots support to represent the interests of various social groups rather than a close circle of elites.

Evidence suggests that parties can best achieve this when they transition from being parties of slogans and personalities to parties of programs and platforms.²⁹ Thomas Carothers captures this point in what he calls “the standard lament” about political parties. He notes that citizens are most frequently disappointed with parties because they are corrupt and self-interested organizations, do not stand for anything, waste too many resources on meaningless political battles, are active only during elections, and are generally not prepared for governing the country.³⁰

A multifaceted approach is needed to build effective political parties and engage them in democratic governance and substantive reform. In addition to

building their capacity, efforts should also focus on developing civil society and feedback mechanisms between parties and their constituents. Developing governance institutions helps to ensure continued interaction with civil society groups (including private sector associations) and forces parties to respond to the needs and concerns of the population. Such a relationship is an integral part of sustaining reconstruction and ensuring that subsequent reforms benefit all segments of the population. Therefore, the political will to reform must be continuously fueled by public engagement in the country’s affairs, lest it wither away in the fray of political factions and special interests vying for power in new, still-fragile democracies.

It is important to remember that democratic citizenship includes not just rights, but also responsibilities. Together with political liberties come duties of active participation in democratic processes, not only through voting, but also civil society associations and advocacy. In many post-conflict societies, the culture of expectation develops where the population by and large is unhappy with the political and economic *status quo*, yet is unwilling to make an effort to identify the necessary policy solutions. Instead, they passively expect the government to provide all the answers. However, democratic governance is a two-way street. The authorities alone – even the best intentioned ones – cannot guarantee it without the engagement of civil society groups as sources that possess the vast but dispersed knowledge of what needs to be done. Aggregating and articulating this knowledge through democratic governance mechanisms helps determine reform priorities and methods.

Consolidating the Market Economy

It is crucial for post-conflict reconstruction that the mentality of “guns and greed,” invariably generated by an armed conflict, be supplanted by a culture in which public discourse rather than violence serves as a channel for competing political and economic interests.³¹ Ending violence and setting up essential institutions is the first necessary step. But in the long run, democratic values must take root in order to guide and strengthen good governance in all areas of public

life and business. The forces instigating violence must be supplanted by the legitimate forces of the market.

Post-conflict countries share the legacy of lasting violence similar to that described by Dr. Boris Begovic in Serbia: criminalized society, institutionalized corruption, impoverished population, devastated social security network, lost GDP growth, decimated private sector, demoralized labor force, and uncompetitive economy.³² In that context, most entrepreneurs ended up engaged in rent-seeking or illegal activities instead of legitimate, productive pursuits. Dr. Begovic notes that the first stage of reforms, accomplished with the international support via grants and loans, was very successful: it enabled the rehabilitation of infrastructure and provided the government with necessary budgetary support to function. Yet the subsequent rise of interest group politics allowed business elites to exercise substantial political pressure against reform and against the creation of a truly free market institutional framework. This is a particularly high risk accompanying post-conflict transitions, in which systemic corruption and special interests come to dominate with no adequate checks and no options for redressing grievances or redefining the imbalance of power.

For market reforms to succeed, it is imperative to overcome the forces of corruption and pursue reforms necessary for an inclusive and vibrant free market. The necessary element of such reforms is ending the public apathy, defeatism, and complicity that often permeate post-conflict societies. Instead, the transition to peace must be associated with new values adopted by the public and private sectors alike.³³ Those values, common to both democracy and free markets, are fairness, accountability, responsibility, and transparency.

An example of a civil society organization successfully promoting those values at the grassroots level is the Kosovo Business Women's Association (SHE-ERA). It is an economic development NGO founded with the support of CIPE in 1999 in the aftermath of the Balkan Wars, with a mission to help women enter the business community. SHE-ERA also serves as an organization that brings people and ideas

together. The association not only focuses on economic issues, but social and political healing as well, helping to foster the spirit of entrepreneurship and providing practical support and solutions in the difficult post-conflict period.

Building the Basis for Lasting Peace and Prosperity

Violent conflicts invariably involve widespread human rights abuses that leave recovering societies with the legacy of injustice and oppression – in the case of civil war, suffered at the hands of fellow countrymen. This is very important given the fact that since World War II interstate conflicts have been eclipsed by civil strife within countries. According to the Oslo-based International Peace Research Institute, 42 armed interstate conflicts occurred between 1946 and 2003. But during the same period there were as many as 165 domestic armed conflicts, 22 of which became “internationalized,” in which at least one other country intervened on one or both sides of the internal conflict.³⁴ This clearly indicates a trend that makes civil conflict the dominant form of large-scale violence. It also implies that when violence stops, the sustainability of peace after a civil conflict depends on successful reconciliation between former enemies who need to find means of peaceful coexistence on a more profound level than if they were separated by state borders.

For democratic and market reforms to take root and for the process of reconciliation to begin in such a difficult setting, it is essential to restore respect for individual rights. A sense of justice needs to be achieved for all citizens; at the same time, peaceful methods of reconciliation must be established to prevent reprisals and future human rights abuses. This approach warrants the implementation of war crimes tribunals, truth commissions, lustration, reparations, or other types of transitional justice.³⁵ Peaceful coexistence in post-conflict settings should also be promoted through inter-faith, inter-regional, or inter-ethnic initiatives with the goal of dialogue, healing, and reconciliation. Without democratic institutions that help post-conflict societies channel their bitter histories into a peaceful national dialogue, the risk of reemerging tensions runs high. Similarly, without a functioning market economy

that can create opportunities for self-advancement and inspire conflict-worn societies to look to the future with hope for a better life, the risk of destructive dwelling on past divisions remains substantial. Thus, consolidating democratic and market institutions and providing a social basis for lasting peace and prosperity are two closely intertwined and mutually reinforcing processes crucial to the success of post-conflict reconstruction.

Successful Approaches to Grassroots Reform

CIPE has faced many of the problems discussed above throughout its work in post-conflict countries. In Iraq, one issue that stood out was the disconnect between policymakers and civil society. Surveying the Iraqi business community, CIPE discovered that more than 70 percent of Iraqi small and medium-sized enterprises from across the country could not identify a political party that represented their interests.³⁶ To address this crucial issue, CIPE organized roundtables between political parties and business associations, bringing them together to discuss reform issues. Preceding the roundtables were programs to develop voluntary business associations that would be the voice of business in the policymaking process. The initiative involved not only helping set up organizational structures, but also building their capacity to identify problems, sort out reform priorities, come up with policy recommendations, communicate those reform proposals to policymakers, and monitor implementation.³⁷

Overall, CIPE's approach in Iraq has been to build the capacity of the private sector to become an active participant in the reconstruction process, while simultaneously helping to establish working communication channels between policymakers on the one hand and economic and social institutions on the other. Recently, CIPE participated in the launch of the Iraqi Business Council (IBC), a coalition formed under the most challenging of circumstances, to serve as the voice of the Iraqi private sector both inside and outside of the country. The IBC comprises representatives from the 12 largest and most established national business associations, chambers of commerce, and economic think tanks in the country. Gathering

from all regions of Iraq, members of the IBC exemplify the resolve of the business community to contribute to the country's development. IBC members participate in the research and review of legislation pertaining to commerce and trade, put forth a National Business Agenda, and contribute to the overall economic and democratic development process.

CIPE undertook a similar approach in Afghanistan, developing the capacity of the private sector to become a vested participant in the reconstruction process. The business community's input was invaluable because it provided concrete reform recommendations, instead of just pointing out failures and criticizing. The need to involve the private sector was identified early in the reconstruction process, when members of the expatriate business community traveled to Afghanistan and met with entrepreneurs – people who ultimately carried the burden of creating jobs, supplying goods and services, and improving standards of living. Businesspeople in Afghanistan complained about barriers to doing business, ineffective banking system, weak rule of law and, most importantly, exclusion from policymaking and little accountability in government.

CIPE facilitated the creation of the Afghanistan International Chamber of Commerce (AICC), Afghanistan's first voluntary business federation. Founded by four Afghan business associations, AICC was created in response to the demand of the business community for a transparent and effective national business association. AICC's membership drive netted nearly 2,000 dues-paying members in the first few days of the organization's launch. The federation now includes 21 national, regional, and local business associations, as well as three international affiliates.

CIPE's efforts were instrumental in AICC's formation, but AICC soon took the initiative to develop solutions to problems its members faced. One program that AICC launched to help integrate the private sector in reconstruction is the Procurement Technical Assistance Center (PTAC), which distributes information on government tenders and provides hands-on assistance to member companies throughout the procurement process. To date, PTAC has provided assistance to 58 companies and has distributed more

than 85 government tenders to its members, resulting in more than \$2.5 million in contracts for Afghan companies, ultimately helping to create jobs and provide opportunities for Afghan citizens. AICC also facilitated over \$20 million in investment through its International Trade and Investment Promotion Office, creating over 300 jobs.

To become involved in the policymaking process, AICC organized more than a dozen large-scale public policy roundtables to address private sector reform issues. At the roundtables, the business community had the opportunity to engage in dialogue with public officials such as President Hamid Karzai, First Vice President Ahmad Zia Massoud, and a host of ministers and senior staff. With an average attendance of more than 250 business and government leaders, these events galvanized the business community in Kabul, Kandahar, and Jalalabad behind AICC's public policy positions. The results were impressive, including a number of policy successes in the area of customs reform, the creation of a feedback mechanism between the private sector and government, and changes to the Private Investment Law.

Riinvest Institute in Kosovo is also a stand-out example of the commitment of local civil society groups to rebuilding after conflict. From the beginning of the reconstruction process, Riinvest advocated for humanitarian relief measures to address pressing day-to-day problems while remaining focused on the future. Riinvest emphasized the need for institutional reform to build a private sector capable of lifting Kosovars out of poverty and despair through job creation, investment, and trade.

In fact, when reconstruction began, Riinvest was the only organization that had conducted a detailed study of the Kosovar private sector and developed policy suggestions for improving the business climate. The organization's emphasis on building the region's economic capacity was even more important in light of a decision by reconstruction stakeholders to require a percentage of the funds to be contributed by Kosovars, in order to avoid the aid dependency problem that plagued rebuilding efforts in Bosnia.

Policy Toolkit for Institutional Reform in Post-Conflict Countries: Private Sector

- Limit corruption (especially in public procurement) through following the OECD Anti-Bribery Convention, designing voluntary codes of conduct and integrity pacts, and spelling out clear rules on conflict of interest.
- Help form independent business associations, chambers of commerce, and think tanks to give the private sector a voice in policymaking and effectively advocate for reforms.
- Work to overcome the legacy of mandatory corporatist business associations common under many former repressive regimes that used them as a tool of control benefiting the government, not the members.
- Raise awareness of the need for market reforms with the public officials and population at large through roundtables, town hall meetings, advocacy campaigns, etc.
- Formulate concrete and implementable policy recommendations to improve the country's economic policies, move away from aid dependency, and improve the business climate and social well-being.
- Create a National Business Agenda as a way to convey the needs and perspectives of the private sector to public officials in a unified and transparent manner.
- Promote entrepreneurship, supporting the inclusion of marginalized groups (e.g., the informal sector or women) into the formal economy.
- Advocate for public investment in physical and human capital.
- Demand fair governmental guidelines on the award of aid project bids, subsidies, tax exemptions, etc.
- Focus on establishing standards for accounting and corporate governance (use OECD Principles of Corporate Governance as reference), train directors and board members in their responsibilities.

For more information on how private sector associations can be effectively involved in the democratic governance process see *How to Advocate Effectively: A Guidebook for Business Associations* and *National Business Agenda Guidebook: The Voice of Business*, available at: <http://www.cipe.org/publications/papers/pdf/advocacyhandbook.pdf> and <http://www.cipe.org/publications/papers/pdf/NBAGuidebook.pdf>.

The recommendations of Dr. Muhamet Mustafa, president of Riinvest, voiced at the early stages of reconstruction and throughout the process, best capture best the working approaches to rebuilding countries after conflict. What he called for, as a means of attaining stability and sustainability, was establishing

more active programs to engage a broad cross-section of Kosovars in the international reconstruction effort. Specifically, he advocated creating, with Kosovar input, an economic framework that reflects Kosovar needs and aspirations while discouraging informal and illegal economic activity; strengthening civil society and democratic institutions as well as Kosovars' involvement in the reconstruction process; and continuing the commitment of the international community to transform Kosovo from an aid-based economy to a self-sufficient economy.

For more 'on the ground' post-conflict reconstruction perspectives, read these Economic Reform Feature Service articles by CIPE partners, available at www.cipe.org.

- “Women Entrepreneurs in Post-Conflict Economies: A Look at Rwanda and Afghanistan” by Gayle Tzemach
- “Addressing Iraq’s Economic Challenges” by Kamal Field, Ph.D.
- “Assessing the Development of Business Associations in Transitional and Post-Conflict Countries” by Mark McCord
- “The Iraqi Constitution from an Economic Perspective” interview with Noah Feldman
- “Post-Conflict Reconstruction in Serbia: A Political Economy View” by Boris Begovic
- “State-Building: Capturing Lessons Learned” interview with Francis Fukuyama
- “State-Building in Afghanistan: A Civil Society Approach” by Omar Zakhilwal
- “Accepting Responsibility: Moving Beyond Political and Economic Dependence in Post Conflict Bosnia and Herzegovina” by Sanja Omanovic
- “Bosnia: Post-Industrial Society and the Authoritarian Temptation” by the European Stability Initiative

Conclusion

Dr. Mustafa’s recommendations extend far beyond Kosovo and will be echoed by many other reformers around the world engaged in rebuilding their countries after conflict. As they begin to identify problems, devise solutions, and build local consensus for reform, civil society groups and political leaders eventually take ownership of the reconstruction process. This gives credibility to the rebuilding effort and introduces a sense of accountability, as reformers ultimately become responsible for successes and failures.

While there is no one scientific approach to every country’s development, those involved in a country’s post-conflict recovery must identify an effective way to utilize the expertise and commitment of local groups to achieve lasting peace and prosperity.

Beyond security, creating sustainable institutions of democracy and market economy remains at the core of successful reconstruction efforts. In most post-conflict countries, political, social, and economic institutions are damaged or weak, and trust in their efficacy has eroded. It is imperative that governments, businesses, and civil society organizations focus on building the structures of democratic governance and free markets in order to ensure public participation in reconstruction reforms and create an economic system that encourages entrepreneurship and spurs growth.

Foreign aid gravitates to humanitarian needs and physical infrastructure, while institutional infrastructure is neglected in the early reconstruction process and too little is done to engage various local groups, including the private sector. Such a top-down approach fails to create a mechanism to relay the views of businesses and other social groups to local decision-makers, and does not encourage transparency and accountability of reform implementation and enforcement. The detrimental results can range from aid dependence to alienation of the local population that feels no sense of ownership in the reconstruction process. In contrast, focus on institution-building and engagement at the grassroots level helps ensure that the efforts of the international community, local governments, businesses, and other societal agents of change are not in vain, that instead they help post-conflict countries become peaceful and prosperous.

Notes

¹ For more, see “Helping Build Democracy that Delivers,” CIPE, <http://www.cipe.org/about/DemocracyDelivers07.pdf>.

² “Post-Conflict Institution Building in Fragile States,” lecture by Dr. Ashraf Ghani at the United States Institute of Peace, June 29, 2005, http://www.usip.org/events/2005/0629_ghani.html#related.

³ Francis Fukuyama, “‘Stateness’ First,” *Journal of Democracy*, Vol. 16 No. 1 (2005).

- ⁴ John D. Sullivan, et. al, "Democratic Governance: The Key to Political and Economic Reform," CIPE Issue Paper #0405 (January 2004).
- ⁵ Francis Fukuyama, "'Stateness' First," *Journal of Democracy*, Vol. 16 No. 1 (2005).
- ⁶ Francis Fukuyama, *State-building: Governance and World Order in the 21st Century* (Ithaca, NY: Cornell University Press, 2004).
- ⁷ For more see James Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (University Of Chicago Press, 1977).
- ⁸ Afghanistan in 2006: A Survey of the Afghan People," The Asia Foundation, <http://www.asiafoundation.org/pdf/AGsurvey06.pdf>
- ⁹ James D. Wolfensohn, "Remarks at the United Nations Security Council," New York (15 April 2004), <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/contentMDK:20193283-menuPK:34472-pagePK:34370-piPK:34424-theSitePK:4607,00.html>.
- ¹⁰ Ibid.
- ¹¹ For example, see Paul Collier and Anke Hoeffler, "On Economic Causes of Civil War," *Oxford Economic Papers*, No. 50 (1998): 563-73.
- ¹² House of Commons International Development Committee, "Conflict and Development: Peacebuilding and Post-conflict Reconstruction," *Sixth Report of Session 2005-06*, Volume I, <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/923/923i.pdf>.
- ¹³ Peter J. Middlebrook and Sharon M. Miller, "Lessons in Post Conflict Reconstruction from the New Afghanistan Compact," *Foreign Policy in Focus*, 27 January 2006, <http://www.fpif.org/fpiftxt/3094>.
- ¹⁴ See The Fund for Peace at http://www.fundforpeace.org/web/index.php?option=com_content&task=view&id=229&Itemid=366 and Foreign Policy magazine at http://www.foreignpolicy.com/story/cms.php?story_id=3865.
- ¹⁵ Ray Salvatore Jennings, "The Road Ahead: Lessons in nation building from Japan, Germany, and Afghanistan for Postwar Iraq," *Peaceworks*, No. 49, (United States Institute of Peace, April 2003).
- ¹⁶ For more, see Rolf Schwarz Conference Report on "Post-Conflict Peace Building: How to Gain Sustainable Peace? Lessons Learnt and Future Challenges" (October 2004).
- ¹⁷ John D. Sullivan, "Democratization and Business Interests," *Journal of Democracy*, Vol. 5 No. 4 (1994).
- ¹⁸ "Liberia probe into graft remarks," BBC News, 21 June 2007, <http://news.bbc.co.uk/2/hi/africa/6225422.stm>.
- ¹⁹ Caroline Bahnson and Jozefina Cutura, "The Post Conflict Fund. Addressing Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs," World Bank Operations Evaluation Department, 2004.
- ²⁰ Larry Diamond, "Lessons from Iraq," *Journal of Democracy*, Vol. 16 No. 1 (2005).
- ²¹ Francis Fukuyama, "State-Building: Capturing Lessons Learned," Economic Reform Feature Service, (CIPE, 25 April 2005).
- ²² Transparency International, "*Global Corruption Report 2005: Corruption in Construction and Post-conflict Reconstruction*," http://www.transparency.org/publications/gcr/download_gcr/download_gcr_2005#download.
- ²³ Available at http://www.transparency.org/news_room/in_focus/2007/cpi2007/cpi_2007_table.
- ²⁴ For more on the private sector's role in post-conflict reconstruction in Lebanon see Charles Adwan, "Corruption in Reconstruction: The Cost of National Consensus in Post-War Lebanon," Economic Reform Feature Service (CIPE, 1 December 2004).
- ²⁵ Douglass C. North, "Local Knowledge and Institutional Reform," Economic Reform Feature Service (CIPE, 26 August 2004).
- ²⁶ Sanja Omanovic, "Accepting Responsibility: Moving Beyond Political and Economic Dependence in Post Conflict Bosnia and Herzegovina," Economic Reform Feature Service (CIPE, 9 February 2005).
- ²⁷ Ibid.
- ²⁸ Jack A. Goldstone and Jay Ulfelder, "How to Construct Stable Democracies," *The Washington Quarterly* (Winter 2004-05).
- ²⁹ John D. Sullivan and Aleksandr Shkolnikov, "Addressing the Underlying Problems," *International Business Times* (29 September 2006).
- ³⁰ Thomas Carothers, "Confronting the Weakest Link: Aiding Political Parties in New Democracies," (Washington, DC: Carnegie Endowment for International Peace, 2006).
- ³¹ James Dobbins, Seth G. Jones, Keith Crane, Beth Cole DeGrasse, *The Beginner's Guide to Nation-Building* (RAND National Security Research Division, 2007:191).
- ³² Boris Begovic, "Post-Conflict Reconstruction in Serbia: A Political Economy View," Economic Reform Feature Service (CIPE, 25 May 2005).
- ³³ Philippe Le Billon, "Overcoming corruption in the wake of conflict" *Global Corruption Report 2005*, Transparency International, pp 76-77.
- ³⁴ Centre for the Study of Civil War, International Peace Research Institute, <http://www.prio.no/cscw>.
- ³⁵ *The Beginner's Guide to Nation-Building*, 76.
- ³⁶ For more information, see CIPE/Zogby International Survey "Business Leader Attitudes toward Commercial Activity, Employee Relations, and Government in Post-Saddam Iraq," http://www.cipe.org/regional/mena/iraq/pdf/Resource_3.pdf.
- ³⁷ For more information, see CIPE's National Business Agenda Guidebook, <http://www.cipe.org/publications/papers/pdf/NBAGuidebook.pdf>.